Pierre Suard
Testing time for Alcatel
Interview, Page 17

War of attrition
Lewis Preston's plans for the World Bank
FT Interview, Page 14

Tony Blair
British Labour's leader-apparent
Page 15

South Africa
Now, to deliver the promises
Survey, Section III

FINANCIAL TIMES

Europe's Business Newspaper MONDAY JULY 18 1994 D8523A

Rwandan refugees killed in clash near Zaire border

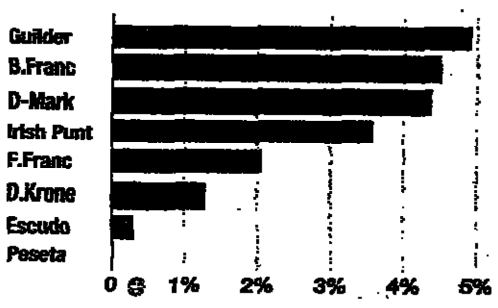
As many as 80 Rwandans were killed in stampedes when rebels attacked the retreating government army at Gisenyi as the refugees were fleeing towards the Zairean border. The UN high commissioner for refugees estimated that between 800,000 and one million refugees had poured into Zaire in the previous five days. In Paris, French officials held an emergency meeting on Rwanda amid reports that the UN had suspended its airlift for the refugees because of an attack on Zaire's Goma airport. Germany joins aid moves, Page 4

Standard Chartered directors quit: Two directors of Mocatta, Standard Chartered's bullion arms, have quit after taking responsibility for a corruption scandal at the bank. The resignations follow a probe into bribes paid by Mocatta employees in return for business. One director was based in London, the other in Hong Kong. Page 17

French minister quits: French communications minister Alain Carignon resigned over a legal case involving a press group based in Grenoble, where he is mayor. A statement said he was quitting "in order to be able to express himself freely". Page 16

European Monetary System: In a week which saw the D-Mark shed some of its recent strength against the dollar, the only change in the EMS grid was the Belgian franc overcoming a small cut in interest rates to move above the D-Mark. The spread between strongest and weakest currency was little changed. Currencies, Page 29

EMS: Grid July 15, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Hostages feared killed: Britons Dominic Chappell and Tina Dominy and Australian Kellie Wilkinson, kidnapped in Cambodia in April by suspected Khmer Rouge guerrillas, are feared to have been killed. The Foreign Office in London said items found near where the three went missing were undergoing forensic analysis.

Minister to meet after fishing row: Spanish fisheries minister Luis Atienza was due to meet his French counterpart Jean Puech today to discuss a row between fishermen from the two countries over illicit drift nets. Yesterday Spanish fishermen headed for port towing an abandoned French trawler which they claim will verify their allegations of illegal fishing.

IRA kills 'informer': The IRA said it "executed" a Northern Ireland woman because she was a police informer. The terrorists dumped her body in Co Fermanagh, close to the border with Ireland.

Action on consultancies: A radical shake-up in the way UK government hires consultants is recommended in a report due out soon. The recommendations comes after the disclosure that the British government spends more than £500m ($780m) a year on outside consultants.

Lebanon branch for Dutch bank: Dutch bank Internationale Nederlanden Bank is to be allowed to set up a full branch in Beirut – the first time Lebanon's central bank has given such an approval for 25 years. Page 19

Opec countries urged to hedge: International banks and commodity exchanges are trying to persuade big petroleum producing countries to use futures contracts and forward oil sales to hedge against sharp falls in oil revenues. Page 17

Rolling settlement for UK shares comes into force today. Under the new system, shares must be delivered or paid for 10 business days after a bargain is struck instead of the two or three weeks that has been traditional on the London Stock Exchange.

Lloyd's of London 'poised for profits': Lloyd's of London insurance market can expect to make comfortable profits in 1993 and for the next three years, according to Nick Bunker of Hoare Govett UK Investment Research. Page 18

Turnberry golf win for Zimbabwe's Price

Nick Price (left) holed a 75-ft eagle putt at the 17th hole and made a safe par on the last green to win the Open golf championship at Turnberry, Scotland. The 37-year-old Zimbabwean's first Open title was achieved with a four-round total of 268, 12 under par, and one stroke ahead of Sweden's Jesper Parnevik who had taken the lead in the late stages of the championship.

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr18	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
France	FFr9.50	Kuwait	Fils.625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	Turkey	L30000
						UAE	Dh12.00

Berlusconi faces resignation threat to coalition

By David Lane in Rome

The survival of Italy's three-party coalition government led by Mr Silvio Berlusconi was in danger last night, following the resignation threat of a senior cabinet minister in a worsening row over a controversial decree curbing the power of magistrates.

Mr Roberto Maroni, minister for home affairs and deputy to Mr Berlusconi, accused cabinet colleagues of trickery. He said he had been deceived about the contents of the decree, promulgated last week, which has already led to the release from jail of several well-known politicians and business people accused of involvement in the "Tangentopoli" ("Bribesville") corruption scandal.

Mr Berlusconi said yesterday evening that Mr Maroni's accusations were not true, and he demanded that his deputy should either make an unconditional withdrawal of the accusations or resign.

The cabinet crisis and trial of strength between Mr Berlusconi and members of his government come at the start of a week when the government's economic policy is scheduled to be announced.

Mr Maroni, who said he should have not trusted his cabinet colleagues when he sought assurances that the decree would not lead to the freeing of suspects, told his party, the populist Northern League, that he was ready to resign from the government.

Italian ministers trade blows on decree ...Page 2

However, at a meeting yesterday afternoon, the League's executive declined his offer to resign from the cabinet. Mr Umberto Bossi, the League's leader, said the deputy prime minister enjoyed the full confidence and support of the party.

Following the meeting Mr Bossi said that the decree should be withdrawn and that the affair should not be used as an excuse for fresh parliamentary elections, which Mr Berlusconi has threatened to call on several occasions since assuming power two months ago.

A firm line against corruption has been a fundamental part of the Northern League's policy. Any softening of this position would threaten the standing of Mr Bossi, and the release of those under investigation might be seen as a sign of weakening.

Mr Bossi's call for withdrawal of the decree aims to reassure his party's followers. Similar calls were made this weekend by the neo-fascist MSI/National Alliance party, government partners with the League and Mr Berlusconi's Forza Italia. In common with the League, the MSI takes a strong line against corruption. With two of the coalition members expressing misgivings about the decree, Mr Berlusconi has been left isolated. Opinion polls suggest the public is against the decree and supports the Milan investigating magistrates who resigned in protest last week.

However, the prime minister appears to enjoy full support from his own party. Mr Alfredo Biondi, a member of Forza Italia and minister of justice responsible for the decree, described Mr Maroni's accusations as grave and false.

Mr Berlusconi has counter-attacked, listing twelve points to justify the decree. Among these was the slow process of justice.

Microsoft deal settles anti-trust probe

By Louise Kehoe in San Francisco

Microsoft, the world's largest computer software company, has avoided potentially costly legal actions on both sides of the Atlantic by settling allegations that it used anti-competitive practices to maintain a monopoly in the personal computer market.

The deal between Microsoft, the US Justice Department and the European Commission settles one of the biggest anti-trust investigations since the break-up of American Telephone and Telegraph, the US telephone group, in 1984.

The settlement, which requires Microsoft to drop some alleged monopolistic practices, marks the end of a four-year investigation which involved unprecedented co-operation between competition authorities in the US and Europe.

In a telling judgment upon the methods Microsoft used to maintain its predominance in the software industry, the US Justice Department said: "While the company fairly and legally climbed to the top of the industry ladder, it used unfair and illegal practices to maintain its dominant position."

Microsoft, with annual revenues of $4.5bn dominates the personal computer software industry with its operating systems installed in more than 120m machines. Operating systems act as the "central nervous system" of a computer, controlling its basic functions.

The company founded by Mr Bill Gates, a young entrepreneur who has become one of the richest people in the world, has faced increasing criticism for commercial practices which its competitors allege limit their ability to break into the market.

Microsoft provided the operating system for the original International Business Machines PC in 1981. This rapidly became a world standard and Microsoft has dwarfed its competitors ever since.

Page 3
- Joint effort is a warning to others
- Undisputed leader backs down
- *Details of the complaint and settlement*

The US authorities, announcing the settlement on Saturday, said that Microsoft had "built a barricade of exclusionary and unreasonably restrictive licensing agreements to deny others an opportunity to develop and market competing products".

Ms Anne Bingaman, Assistant Attorney General in charge of the anti-trust division of the US Justice Department said: "Microsoft is an American success story, but there is no excuse for any company to try to cement its success through unlawful means, as Microsoft has done."

She added: "This case sends a powerful message that the anti-trust authorities of the US and the EC are prepared to move decisively and promptly to pool resources to attack conduct by multinational firms that violate

Continued on Page 16

A wounded Palestinian is rushed from the main Gaza-Israel checkpoint yesterday after Palestinian and Israeli police exchanged fire. Two *Palestinians were shot dead in the incident, which put the Israeli-Palestinian* peace agreement under severe strain. Report, Page 16 Reuter

Detergent war enters a new cycle

By Diane Summers, Marketing Correspondent

Unilever and Procter & Gamble are about to open a new front in their washing detergent wars, with Unilever preparing to test samples of a new product developed by its rival.

The Anglo-Dutch consumer goods group said it had obtained a draft sales brochure and a sample of a new Procter & Gamble detergent.

Procter & Gamble plans to launch its own new-generation detergent, called Ariel Future, in Germany in the autumn and then elsewhere in Europe.

The two consumer giants have been engaged in a battle for months over Unilever's detergent, called Persil Power or Omo Power. Procter & Gamble claims the detergent could damage clothes after frequent washing.

Unilever will later this week publish details of its own tests on its detergent which, it will argue, vindicate the product.

Mr Andrew Seth, who heads Unilever's UK detergent business, said the Procter product, Ariel Future, was "rivetingly similar" to its own detergents in the way the sales literature emphasised better stain removal at lower temperatures.

Mr Seth said the apparent similarities between the products "unquestionably" explained Procter's attacks. "This completed the jigsaw puzzle for me," he said.

Mr Seth said he thought Procter had been working on its new formulation for some time but had been pipped to the post by Unilever: "I think this is something they've been intending to do for a long time but we got in a bit sooner than they thought we would. You realise how galling it must be to have somebody do it before you."

However, Procter & Gamble is already preparing its defence of Ariel Future. It said yesterday : "This is not a copy-cat product but a leap-frog product."

It emphasised that Ariel Future would not contain the manganese based ingredient which has been at the centre of the controversy

Continued on Page 16
Lex, Page 16

Shipbuilding nations avert trade war over yard subsidies

By John Ridding in Paris

Leading shipbuilding nations yesterday agreed to scrap subsidies to their shipyards in a landmark deal for the industry, averting a potentially serious trade dispute.

France, however, opposed the deal, reached after a week of negotiations at the Organisation for Economic Co-operation and Development in Paris. Its rejection indicates a rift with its European Union partners, represented in the talks by the European Commission, which are unlikely to be swayed by the French stance.

The agreement, between the US, the EU, Japan, South Korea, Finland, Norway and Sweden, follows five years of talks and was concluded in the early hours of yesterday. It will end direct and indirect subsidies to shipyards in these countries and includes an anti-dumping code, drawn up in response to concerns about Japanese and Korean pricing.

Officials said failure to conclude an agreement could have provoked a subsidy war between the bigger shipbuilding nations and triggered US retaliation against ships built in subsidised foreign yards.

"Given the huge increase in capacity in Korea and the rise of producers like China and Ukraine, European countries might have been forced to provide increased aid to their yards, prompting a subsidy and price war," said an official involved in the talks. "It was clear ... the US was considering unilateral action if a deal wasn't reached."

The agreement must be ratified by all participants and is due to take effect at the beginning of 1996. But it faces opposition from France, which sought to suspend the talks at the weekend, and which is concerned about jobs at its remaining shipyards, notably Saint-Lazare and Le Havre.

France, on its own, would be unable to stop a qualified majority vote on the deal in the European Council of ministers and appears isolated in its opposition.

Yesterday's agreement followed the resolution of several protracted disputes. These included European concerns about the Jones Act, which restricts US coastal trade to vessels built in US yards. The Jones Act will remain in place, but there will be a cap placed on the tonnages it covers and counter-measures will be available in the case of misuse.

The agreement covers about 75 per cent of the world's shipbuilding capacity and officials want to extend it.

Danes attack Brussels on ship subsidies, Page 3

CONTENTS

Bosnia Serbs may reject peace plan

By Laura Silber in Belgrade

Bosnia's rival assemblies – the republic's Moslem-led legislature in Sarajevo and the Serb deputies in nearby Pale – will today give their verdict on an internationally sponsored peace plan. And all the signs are that the Serbs will say No.

Diplomats said yesterday that only a last-minute turnround, under the influence of Serbian President Slobodan Milosevic, could avert a resounding rejection from delegates in Pale.

If they turn down the plan devised by a five-nation contact group, the Bosnian Serbs will by defying international opinion. In effect, they would be challenging the group to put into effect the threatened "disincentives" for those who refuse to co-operate.

The contact group has pledged to tighten economic sanctions against Serbia and possibly to lift the arms embargo against the Bosnian government, if the Serbs say No and the government says Yes. United Nations and Nato commanders at the weekend met in Zagreb to decide possible responses if one side rejects the plan.

Senior Bosnian Serb officials have defiantly predicted that the deputies who arrived in Pale over the weekend from all parts of their self-proclaimed Serb republic will turn down the proposals, even though they have been described as a "last chance".

In Belgrade, President Milosevic has not delivered a firm opinion on the peace plan but is believed to support it, if only to ease economic pressure on Serbia.

However, he claims to have only limited influence over his kinsmen in Bosnia, and he wants to avoid the humiliation he suffered last year, when the Bosnian Serbs ran counter to his advice and turned down the Vance-Owen peace plan.

The latest proposals call for a Moslem-Croat federation to control 51 per cent of Bosnia, while the Serbs – who currently control 70 per cent – would pull back to a 49 per cent share.

Some of the strongest evidence that Mr Milosevic backs the plan comes from the editorial line of the daily Politika, which is close to the president.

Mr Milosevic's hand has also been detected in the pursuit of a corruption scandal which has embarrassed the Bosnian Serb interior minister and could give the Belgrade leadership greater leverage over its kinsmen in Pale.

Mr Milosevic indicated to the British and French foreign ministers last week that he took seriously their offer to lift economic sanctions in return for co-operation.

But Mr Radovan Karadzic, the Bosnian Serb leader, told the visiting ministers he had strong objections to the plan, mainly constitutional ones. He wanted the Bosnian Serb territory to be fully independent, while the plan called for both statelets to form a loose confederation.

Mr Karadzic was frustrated by the contact group's refusal to allow the Bosnian Serbs to opt out of the confederal arrangement after two years.

Politicians from the Serbian Democratic party, the main *political grouping in Pale*, made it clear they intend to vote No.

Some of the loudest rejections have come from representatives of regions that would have to be ceded to the Moslem-Croat federation under the peace plan. Bosnian Serb paramilitaries at the weekend rounded up Moslems who have remained in *Serb-held territory*.

General Ratko Mladic, military commander of the Bosnian Serbs, has told Mr Milosevic he will never hand over such strategic positions as Mount Ozren in northern Bosnia.

Italian ministers trade blows on decree

David Lane charts the events which have led to the Berlusconi government's difficulties

As the Italian national football team prepared for the final of the World Cup in Los Angeles last night, in Rome a deeply *divided cabinet led by prime* minister Silvio Berlusconi neared a government crisis.

Statements by ministers during the weekend highlighted the serious fault lines existing within the three-party coalition. Government colleagues accused *one another of deceit* and implied that self-interest might lie behind last week's decree to limit the use of preventive detention.

Mr Giuliano Ferrara, minister for parliamentary relations and press spokesman for Mr Berlusconi's government, described cabinet colleague Mr Roberto Maroni, minister for home affairs, as politically infantile and amateur. Mr Maroni, a member of the Northern League and deputy prime minister, has said he is ready to resign his ministerial post over the decree. He claimed he had been assured that the decree was agreed *with opposition parties*.

He said he had placed his ministerial mandate at the disposal of the party.

Mr Ferrara, who belongs to Mr Berlusconi's Forza Italia party, was responding to Mr Maroni's accusations of treachery in the cabinet. Mr Maroni said he had been deceived *about the contents of the* decree, announced at the end of last week, and that he had been assured that the decree would not lead to the release from prison of persons accused of corruption.

He said he was ingenuous in trusting his cabinet colleagues.

The Northern League has won much of its following in northern Italy as a result of its stand against corruption in public life and in business. Northern League supporters have criticised a decree which opens the gates of Italian prisons to *many well-known* figures accused of corruption offences and cancels requests for extradition of others who are abroad.

There were demonstrations in Milan on Saturday against the decree, and in favour of the team of investigating magistrates who resigned last week in protest. Although the demonstrations were *organised by* opposition parties, significant numbers of Northern League supporters were present. Television news crews from Mr Berlusconi's media network empire sought police protection during the demonstrations.

Opinion polls taken after the decree seem to confirm that it is unpopular. Polls undertaken on behalf of the daily newspaper l'Unità show that nearly three-quarters consider that the decree is wrong. Only one in seven believes that Mr Berlusconi is right.

More than three-quarters of the paper's sample support Mr Antonio Di Pietro, the head of the team of investigating magistrates.

Results of an approval rating published in La Repubblica newspaper on *Sunday* show that Mr Di Pietro scored 85 per cent, while Mr Berlusconi slipped to 48 per cent. At the end of last week the prime minister, whose offer of a ministerial post to Mr Di Pietro was refused when Mr Berlusconi was forming his government, accused the magistrates of seeking media star status.

Under fire from the public, press, opposition parties and one of his coalition members,

Umberto Bossi (left), Northern League leader, and Roberto Maroni, home affairs minister, dislike the decree on detainees AP

The League has won support through its stance on corruption

Mr Berlusconi counter-attacked on Saturday, listing 12 points to justify the decree. Among these were the crowded conditions in Italian prisons and the slow process of justice. Mr Berlusconi said that remanding in custody should be an exception and only used for serious offences.

He added that it was the duty of the prime minister to defend the weak and that any modifications to the decree should reduce still further custody for suspects. Motives other than concern for weaker citizens have, however, been attributed to the commitment of Mr Berlusconi and Mr Alfredo Biondi, his justice minister, to the decree.

Mr Maroni noted that one of the effects of the decree has been to put a brake on investigations into corruption cases involving the fiscal police in Milan, where important revelations had been thought imminent. One of the first beneficiaries of the decree was Mr Biondi's former Liberal party colleague, Mr Francesco De Lorenzo, former health minister.

In holding a rigid line on the decree, *Mr Berlusconi may be* seeking a government crisis in the hope that another parliamentary election this year would lead to the strengthening of Forza Italia's position at the Northern League's expense.

The neo-fascist MSI/National-ist Alliance, the third member of Mr Berlusconi's coalition, is taking a spectator's role, although it maintains a hard line on corruption. Before leaving for the US to watch the World Cup final, Mr Gianfranco Fini, its leader, said a solution to the conflict in the cabinet would be found. However, even if he is correct, the longevity of the government is in question.

Kuchma shows his true colours

Ukraine's new leader is embracing market reforms and is cautious of Russia, writes **Chrystia Freeland**

During the cold war, it was a truism of US politics that only Republican leaders, with their impeccable anti-communist credentials, had the clout to negotiate with the Soviets.

In a Ukrainian version of this political axiom, Mr Leonid Kuchma, the president-elect who is to be inaugurated *tomorrow, appears ready to* implement policies which, under a different leader, would provoke the fiercest outcry from his own constituencies.

He was swept into office last weekend through the pro-Russian and communist vote, and is setting himself up as a free marketeer, a defender of the new republic and a cautious friend to Russia.

Mr Kuchma is a farm-boy from central Ukraine who *made his career in the Rus*sian-speaking defence industry but is increasingly reverting to the Ukrainian language of his childhood. The new president has a far greater ambivalence towards Russia than romantic proponents of Slavic brotherhood in Moscow, or his Russian-speaking supporters at home, might wish.

*He sees the Ukraine's eco*nomic future as closely tied to Russia's fortunes and he aims to create "a Euro-Asia common market". Mr Kuchma intends to tear down trade barriers between Ukraine and its largest market, viewing Russia as a potential economic partner rather than a still clawed, recently ousted, overlord.

Even so, Mr Kuchma and his advisers retain what many Ukrainians would see as a healthy wariness of mother Russia. One of the new president's top economic aides (an *ethnic Russian entrepreneur*) bustled through the campaign headquarters serving as *Mr Kuchma's temporary office* with a tale of Russian "spies" who had already visited him.

Mr Kuchma is also committed to hold on to the contested Crimean peninsula. It "is now a part of Ukraine and will stay that way". He points out that it "voted for the new Ukrainian president."

The new leader's confidants admit that the hard-headed industrialist has "a romantic side; *this is a man who strums* the guitar in his free time".

Some observers have feared that this sentimental streak might extend to a belief that the old days of cheap Russian fuel might return, given a sufficiently accommodating government in Kiev. But his tenure as prime minister, while

He is committed to holding on to the contested Crimea peninsula

Russia was jacking up oil prices almost to world market levels, appears to have cured Mr Kuchma of this nostalgia.

"Of course, Russia won't sell *us oil and gas at subsidised* rates," Mr Kuchma says, lecturing on the rules of the free market as though to a dim pupil. "That's how the market works – no-one sells anything more cheaply than he has to."

The new president realises that closer economic ties with Russia are no panacea – a harsh reality which Mr Kuchma did not often share with his voters. The fledgling administration will struggle to find more viable economic solutions.

Ukrainian bureaucrats, *many of them hand-picked for* their loyalty to the out-going president, Mr Leonid Kravchuk, *are only reluctantly* releasing information to the new administration. Each new revelation makes the Kuchma team more depressed. The new man has inherited a debt-laden government with no official budget and outstanding promised credits – which Mr Kuchma says he will try to block – which could trigger a new round of inflation. It also has a huge debt to Russia and Turkmenistan *for oil and gas*.

He still cherishes warm memories of the old days when heavy industry, including the missile factory he managed, was the pride of Soviet industry, but Mr Kuchma appears to have decided that market reforms are the only solution.

He hopes to meet Mr Michel Camdessus, managing director of the International Monetary Fund, as soon as possible and has already met the US ambas*sador twice as part of his bid to* secure the \$4bn (£2.6bn) promised to Ukraine by the Group of Seven industrialised countries if it begins reforms. Mr Kuchma realises, though, that western aid can alleviate no more than slightly the pain of economic transition.

"Between 20 and 25 per cent of our factories must be closed *down. They are barely operat*ing and what they do produce they sell to themselves." Mr Kuchma says. "Our main task now is to figure out how to transfer state factories to private ownership."

That sounds promising but, as Mr Kuchma himself is the first to admit, as the leader of the country with one of the worst economic records in what was the Soviet Union, he has a credibility problem. "We've had so many programmes already. I don't even want to talk about mine. Now is the time just to do it."

First, Mr Kuchma must assemble a government and take control of *the state. He* appears to be vetting the reformist credentials of current and future cabinet members: Mr Roman Shpek, economy minister and the most progressive figure in the old government, will stay. Mr Viktor Iushchenko, chairman of the national bank, will need to explain to the new president "why he did not more forcefully fulfill his mission to defend the national currency" if he wants to keep his job.

Mr Kuchma says he will let the new prime minister stay on initially – "I met him and he seems to be a reformer" – but the president-elect wryly *admits, "I do not expect passionate embraces"* from parliament, which is dominated by hard-line leftists.

Mr Kravchuk ruled Ukraine through an agile series of political manoeuvres, at the expense of a clear political agenda. Mr Kuchma, accustomed to the disciplined obedience of the Soviet defence industry, is by nature inclined to a very different sort of leadership. The first stages of his administration will show whether his commitment to reform Ukraine's economy and create an effective, but *not* subservient, relationship with Russia survive in the often *brutal* and *inchoate* world of Ukrainian politics.

President-elect Leonid Kuchma, who is to be inaugurated in Kiev *tomorrow, is cautious about Ukraine's links with Russia* Picture: AP

A Duchy at the heart of Europe

By Emma Tucker in Luxembourg

"We get on well with everyone," said a Luxembourg hat-shop owner, in one of the narrow, sandy-coloured steep streets that run steeply down hill from the city's main square. "We are the very best Europeans."

On Saturday, the morning after Mr Jacques Santer, the Luxembourg prime minister *had been chosen* to replace Mr Jacques Delors as president of the European Commission, was difficult to find Luxembourgers in the Grand Duchy.

The woman serving in a coffee shop in the city centre was Belgian. "You won't find any Luxembourgers round here," she confidently predicted. "You have to go to the country to find a pure Luxembourger."

The man behind a stall in the fruit market was from Portugal. "We're all European now, anyway," he said grumpily. Two elderly ladies daintily eating fruit salad in the shade of a tree were Dutch.

Each day, thousands of commuters travel to the Grand Duchy to work in banks, insurance companies, bars and restaurants, the result being a polyglot nation where some 30 per cent of the 400,000-strong population ... half the workforce is foreign.

Luxembourg's location – boxed in by France, Belgium and Germany – means that the citizens are tri-lingual, speaking French, German and the local language, Letzebuergesch. A German dialect heavily laced with French, it has recently been designated the official language, although government business is still *mainly* carried out in French.

"There's no point asking what Luxembourgers think about something, because there is virtually no such thing as a real Luxembourger any more," said a barman of French and Luxembourger origin, who carried a Luxembourg passport.

"There is nothing here to feel really proud of, but it's a nice, convenient place to come from," he adds, with a modesty indicative of the country.

Haute couture comes back into fashion

By Alice Rawsthorn in Paris

It might be seen as a poignant symbol of the prospects for haute couture, the most exclusive – and expensive – form of Paris fashion, that this week's couture collections opened last night with a show by Gianni Versace, a designer who is not French but Italian.

An interloping Italian, however, is only one of the problems confronting the French couture houses, which have been fighting for survival in the early 1990s in the face of economic recession and the anachronistic structure of the haute couture system.

The market had been in decline since the 1960s until a brief renaissance in the mid-1980s, *with turnover peaking at* FFr320m (\$60m) in 1988 and 1989, according to the Chambre *Syndicale. But the decline then* resumed, with sales falling to around FFr290m in each of 1991, 1992 and 1993.

Haute couture, once the most creative area of French fashion, had deteriorated into a source of publicity for the scents and sunglasses from which the fashion houses make most of their money.

Yet couture now seems to be staging a revival after years of decline. "There's definitely been an improvement," says Christian Lacroix, one of France's most famous couturiers. "Our spring collection sold very well at the January shows. The increase in sales hasn't been enormous, but business is better."

Mr Lacroix is not alone in having noted such an improvement. Denise Dubois, an official at the Chambre Syndicale de la Couture Parisienne, the industry body, reckons that most of the couture houses reported increased sales after this spring's collections.

Some of the avant garde designers who show in Paris – John Galliano, Vivienne Wes*twood and Koji Tatsuno – have* introduced their own versions of couture outside the *Chambre Syndicale system*. Meanwhile the official couturiers are attracting new customers again.

Compromise offer in Polish strike

Christopher Bobinski on a dispute between Warsaw steelworkers and Italian employers

A bitter five-week strike by workers at the Warsaw steelworks, taken over two years ago by Lucchini, Italy's largest private steelmaker, reached a turning point at the weekend as strike leaders dropped plans to take control of production and offered the Italian management a compromise designed to open talks.

In a landmark confrontation between the 3,400-strong Polish workforce and a foreign investor, Lucchini is demanding *that the strike end before talks can* start on their demand for a 30 per cent wage increase. But the gap between the two sides – which Catholic bishops acting as mediators are seeking to close – is large.

Lucchini argues that the wage demand is too high. The workers, who earn an average \$250 (£165) a month gross compared with \$175 a month when Lucchini took over in 1992, say pay increases have not corresponded to either inflation or the 100 per cent rise in productivity over the last two years.

Mr Andrzej Wieczorek, the deputy head of the Solidarity union's Warsaw region, yesterday threatened to step up protests if Lucchini did not accept the compromise proposal. He was speaking after a church service at the works at which the workers and their families heard Fr Henryk Michalak, a local par*ish priest, tell them*: "When there is a conflict between capital and labour, labour always comes before capital."

The workers' determination is fuelled by the feeling that the new Italian owners are failing to respect their past achievements. Under communist rule the plant, built in the 1950s, enjoyed prestige as a crucial supplier to the defence and engineering industries. Then, in the 1980s when the plant was a Solidarity stronghold, the authorities went out of their way to accommodate their requests. Even now it is a key *supplier to local industries, including* Fiat Auto Poland's Cinquecento plant in Bielsko.

But a sign on the gate saying "Welcome to the white blacks at Lucchini" implies that they feel they have been pushed into a neo-colonial situation. Workers complain that the foreign owners show them no respect. The mood contrasts sharply with the almost 100 per cent backing for the joint venture with Lucchini which the workforce, then 4,500 strong, voted in a referendum two years ago.

At that time the Lucchini joint venture was seen as the only way out for the debt-laden works, which was beginning to recover from a sharp drop in sales in 1991 as Comecon markets collapsed.

The agreement with Lucchini, which has a Polish government golden share giving it veto powers in the joint venture, commits the Italians to an Ecu150m (£115.5m) modernisation programme to cut costs while bringing output up to 1m tonnes a year from present annual sales of 300,000 tonnes, 15 per cent of which are exported. Last year Lucchini's output in Italy was *2.4m tonnes and the strategy* in Poland was to position the company to be *ready to supply the countries of the* former Soviet Union once the area recovers.

'You are fighting for control of the nation's right to its means of production,' a priest says

However, the modernisation plans ran foul of a complex land ownership situation. Lucchini says it did not know when it signed the initial deal that much of the steelworks was built on a former tsarist military training ground taken over in 1920 by the newly independent Polish state, which however *failed to document its title to the land*. The registration of ownership has taken 18 months to complete. Meanwhile, the International Finance Corporation, the European Bank for Reconstruction and Development and a group of Italian banks whose loan is to be guaranteed by SACE, the Italian credit agency, have held up the already arranged Ecu150m in modernisation loans until the land deeds were ready.

The delay infuriated the workers, one of whose strike demands is that the modernisation be started immediately. Last year the group showed a net loss in Warsaw of 27bn zlotys (£780,000), against more than 400bn zlotys recorded in 1992, the last year of Polish management.

Lucchini says it will not abandon its initial investment commitment – Ecu19m in cash and knowhow transfers and Ecu8.3m in promissory notes. Actual investment in Warsaw by the Italians has been a mere 100bn zlotys.

The Polish government so far has backed the Italians. Mr Wieslaw Kaczmarek, privatisation minister, told parliament recently the strike was illegal and the blame for the delay in modernisation was to be laid entirely at the door of the Polish side.

But the conflict has a nationalist undertone. "Not only are you fighting for wages you deserve, you are also fighting for control of the nation's right *to its means of production*," the strikers heard Fr Michalak say yesterday. If the stoppage is allowed to escalate, it will put question marks over the viability of foreign investment in Poland.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363 Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01, Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

Undisputed leader backs down

Microsoft finally decides to take a more pragmatic approach, writes Louise Kehoe

Microsoft, undisputed leader of the personal computer software industry, has done what it vowed it would never do by signing a consent decree to antitrust charges levelled by the US Justice Department and the European Commission.

Still proclaiming its innocence, Microsoft took a pragmatic approach when faced with the imminent prospect of being dragged through both the US and European courts on charges that it erected barriers to competition, bullied PC manufacturers into buying its products and tried to impose restrictive agreements on other software developers in order to maintain its dominant role in the PC operating system software market.

"We had very much in mind what happened to IBM," said Mr Bill Neukom, Microsoft chief counsel, referring to the computer company's decade-long struggle against antitrust charges in the US which, when finally dropped, were picked up in the European courts.

"This could have been a 10- or 12-year battle," he said, "costing millions of dollars per year."

Instead, by settling the complaints on what it called "reasonable terms", Microsoft has brought to an end four years of speculation surrounding the antitrust investigations, which raised a far broader range of allegations than those specified in the official complaint.

Notably omitted from the official complaint, for example, were the allegations of several Microsoft competitors that the company's applications software group had unfair advantages over competitors because of internal links – a charge which if it had been upheld, might have led to a forced division of the company.

The Justice Department may also be relieved to have resolved a case which could have placed the Clinton administration in an embarrassing battle with one of the most successful companies in the US information technology industry, while at the same time promoting high technolgy as the "engine for US economic growth".

Thus some may see the settlement as a let-off for Microsoft, despite the strong rhetoric of Ms Janet Reno, US attorney general, who charged that Microsoft was being forced to abandon "illegal monopolistic practices" that have "choked off competition and preserved its monopoly position".

"Today's settlement levels the playing field and opens the door to competition," said Ms Reno. PC buyers will have a wider choice of operating systems and PC manufacturers will no longer have to pay royalties to Microsoft for computers not containing its software, she said.

In practice, however, industry analysts do not expect the settlement to have a significant impact on the balance of power in the software market in the foreseeable future.

"The operating system wars are over – Microsoft is the winner," said Mr Richard Shaffer, president of Technologic Partners, a technology research company in New York.

The huge installed base of Microsoft operating systems – some 120m PCs have MS-DOS installed – together with the plethora of applications designed to run on Microsoft's operating systems, virtually guarantee that Microsoft will continue to dominate the field for some time.

IBM, Microsoft's strongest rival in the PC operating system market, sold about 3m copies of its OS/2 program last year compared with Microsoft's sales of about 2m copies of Windows a month.

The consent decree might create a short-lived opportunity for Novell, one of Microsoft's fiercest antagonists on the antitrust issue.

The Utah company offers an alternative version of Microsoft's DOS, called DR-DOS, and has been struggling to persuade PC manufacturers to adopt it.

"We will be knocking on the doors of PC makers on Monday morning offering them an alternative to MS-DOS at competitive prices," said Mr David Bradford, Novell's chief counsel.

However, with Microsoft planning later this year to launch "Chicago" – a new PC operating system that incorporates all of the functions of MS-DOS, Windows and more – Novell's chances of stealing Microsoft custom may prove to be limited.

Had the antitrust settlement come a year ago, it might have had a greater impact, industry analysts said. Now, with Chicago on the horizon, Microsoft has little to lose because none of its competitors has a product that can match the new operating system.

The only obvious beneficiaries of the Microsoft settlement are PC manufacturers, who now have the right to demand new licensing terms from Microsoft. Yet their bargaining strength is still limited by Microsoft's dominant role in the PC industry.

PC buyers are unlikely to notice the effects of the settlement. Operating systems represent a very small portion of the total cost of a PC – in the region of \$15-\$50 – so any cost savings by PC makers are likely to have a minimal effect on prices.

Microsoft is not, however, entirely off the hook. The company is "wide open to private antitrust suits", said one industry lawyer. Although Microsoft has not admitted guilt in the consent decree, the Justice Department allegations might bolster charges brought by competing software companies, he said.

Microsoft also faces a 6½-year period during which its activities will be closely monitored by the department and by EU competition authorities.

Concerns about antitrust infringement are widely seen as one of the factors in IBM's fall from industry leadership because the company's day-to-day management activities were for many years routinely reviewed by lawyers, slowing decision-making.

"We have been largely successful in avoiding that syndrome," during the antitrust investigations, said Mr Neukom.

"We have not let it slow us down or distract us." He acknowledged, however, that if Microsoft should become "slow footed or start second-guessing ourselves too much we could fall behind the pace of the industry."

Other companies have dominated sectors of the computer industry for a period of years, only to fade into oblivion when new technology overtakes them, Mr Neukom recalled.

It is a fate that Microsoft must now work harder to avoid.

CHRONOLOGY

- ■ 1975 Microsoft founded
- ■ 1981 MS_DOS chosen for first IBM PC
- ■ June 1990 Federal Trade Commission launches "non-public" probe, initially into Microsoft's partnership with IBM
- ■ March 91 Microsoft and IBM acknowledge they are co-operating with the FTC's investigations. (IBM subsequently dropped from the investigation)
- ■ Sept 92 Microsoft denies reports of "exclusionary behaviour"
- ■ 1993 Steve Jobs, founder of Apple Computer, calls for break-up of Microsoft into separate applications and operating systems companies
- ■ 1993 UK Office of Fair Trading investigating Microsoft
- ■ Feb 93 FTC deadlocks on whether to act on broad antitrust case against Microsoft
- ■ June 93 Novell files complaint against Microsoft with European Directorate General for Competition
- ■ July 93 FTC deadlocks again on whether to charge Microsoft with antitrust infringements
- ■ July 93 US Justice Department requests documents from FTC
- ■ July 93 Bill Gates accuses rival Novell of stirring up trouble on antitrust for its own gain
- ■ August 93 US Justice Department launches its investigation, taking over from FTC
- ■ Feb 94 US and EU move to collaborate on Microsoft investigations
- ■ April 94 New industry charges that Microsoft uses restrictive non-disclosure agreements to limit competition
- ■ July 3-4 US and EU officials meet in Brussels to begin working out a settlement with Microsoft
- ■ July 13 Further meetings begin in Washington. Microsoft faces deadline to agree to negotiate settlement
- ■ July 16 Settlement announced.

DETAILS OF THE COMPLAINT AND SETTLEMENT

Microsoft is alleged to have engaged in several restrictive practices limiting competition in the software market, according to a complaint filed in a Washington district court by the US Justice Department, writes Louise Kehoe.

"Virtually all major PC manufacturers find it necessary to offer Microsoft operating systems on most of their PCs," the complaint states. "Microsoft's monopoly power allows it to induce these manufacturers to enter into anti-competitive, long-term licences under which they must pay royalties to Microsoft, not only when they sell PCs containing Microsoft's operating systems, but also when they sell PCs containing non-Microsoft operating systems."

The Justice Department alleges that by making its MS-DOS and Windows programs available on a "per processor" basis, Microsoft requires PC manufacturers to pay a fee for each computer shipped, whether or not that computer contains a Microsoft operating system.

This arrangement gives Microsoft an unfair advantage by causing a PC manufacturer selling a non-Microsoft operating system to pay at least two royalties – one to Microsoft and one to its competitor – thereby making a non-Microsoft computer more expensive, it is alleged. Microsoft, however, said that the Justice Department and European competition authorities had misunderstood the terms of its licensing arrangements, noting that manufacturers could exclude specific models from their Microsoft licence agreement.

The Justice Department further charged that Microsoft's contracts are unreasonably long. By binding manufacturers to purchase Microsoft products for years the agreements make it difficult for new competitors to enter the market.

Under the terms of the settlement, Microsoft will be prohibited, for the next six-and-a-half years from:

- ■ Entering into any "per processor" licensing agreements with PC manufacturers. Instead, Microsoft must license its operating systems on a "per system" or per computer basis.
- ■ Requiring PC makers to purchase any minimum number of Microsoft operating systems, regardless of how many computers are sold.
- ■ Entering into licensing agreements with terms longer than one year.
- ■ Requiring licensees to pay Microsoft on a "lump sum" basis, rather than according to the number of copies of the software used.

Another significant element of the settlement refers to alleged "tying" of sales of other Microsoft products to purchases of operating systems. Competitors have charged that Microsoft forces PC manufacturers to buy other products to obtain discount prices, a charge Microsoft has denied. The settlement specifically prohibits this practice.

The Justice Department also charges that Microsoft's "non-disclosure agreements" with some software developers have been unfairly restrictive. This issue surfaced recently when software developers claimed Microsoft was attempting to prevent them working on applications programs that would run on non-Microsoft operating systems.

The NDAs required programmers granted access to pre-release versions of a new version of "Windows" could not work on programs for competing operating systems for a period of three years. When the issue came to light Microsoft acknowledged that it had "made a mistake" and offered to modify the terms of the agreements.

The antitrust settlement limits duration of an NDA to 12 months and prohibits Microsoft from imposing any terms that would prevent a software developer from developing products to run on competing operating systems.

Notable missing from the complaint and settlement documents is any mention of allegations raised by software industry executives that Microsoft's applications software developers gain an unfair advantage because they have greater access to the company's operating system technology.

Microsoft has stridently denied these and other charges. On Saturday, Microsoft stressed that the settlement agreement covers "all matters" raised by the antitrust investigations, which the company acknowledged had "initially included many allegations raised by our competitors and began as a very broad probe into lots of aspects of the way we do business."

Joint effort is warning to others

By Louise Kehoe

The European Commission yesterday said its co-operation with the US Department of Justice in stopping alleged anti-competitive practices by Microsoft was a warning to other large businesses.

"It serves as an important model for the future, as it shows how the two authorities can combine their efforts to deal effectively with giant multinational companies," the commission said.

"The success of this joint approach sends a strong signal to all multinational companies, including those in other sectors."

The Justice Department and the commission announced a joint deal under which Microsoft agreed to stop certain licensing practices in exchange for the two authorities dropping anti-competition actions against the software company. The Microsoft settlement with US and European competition authorities marks the first time that the US and the EU have co-ordinated their efforts in formulating antitrust charges and a settlement.

The precedent-setting case "sends a powerful message... that the antitrust authorities of the US and the EU are prepared to move decisively and promptly to pool resources to attack conduct by multinational firms that violate the antitrust laws of the two jurisdictions," said Ms Anne Bingaman, head of the US Justice Department antitrust division.

The US and EU treaty allows only the exchange of information in multinational antitrust cases. However, that treaty is under review by the European Court of Justice and was not used as the basis for collaboration in this case.

Instead, the department's antitrust division sought Microsoft's approval before sharing information with its European counterparts. The commission said the two sides had a number of meetings to prepare a co-ordinated approach to dealing with Microsoft, then held joint meetings with the company in both Washington and Brussels.

Danes attack Brussels over ship subsidies

By Hilary Barnes in Copenhagen

The Association of Danish Shipbuilders has charged that the European Commission exceeded its powers by approving German subsidies to shipyards in the former East Germany and is attempting to bring the issue before the European Court.

Danish shipbuilders contend that the German subsidies will jeopardise their own shipbuilding industry. However, the association received a severe setback late last week when the Danish government refused to take the Commission to task before the European Court. Any action will have to be taken by the association itself without concerted government backing.

Requests by the German chancellor, Mr Helmut Kohl, to the Danish prime minister, Mr Poul Nyrup Rasmussen, not to pursue the shipbuilding issue have been reported by the Danish media as a factor in the government's decision.

The Danish shipbuilders' case is driven by grave concern that their shipyards will be rendered uncompetitive. The history of their complaint dates back to 1992 when German subsidies to four shipyards in the eastern provinces were approved in principle by an EU directive - the seventh shipbuilding directive under which several conditions were attached.

"A genuine and irreversible reduction" in shipbuilding capacity was one of the conditions. Another was that the subsidies should not exceed 36 per cent of a shipyard's "normal turnover" after restructuring.

The Danes claim that far from being reduced, capacity at the four German yards will be dramatically increased. The Danish shipbuilders also contend that the German yards are being restructured to compete in precisely the type of ships – supertankers, and Panamax container-carrrying and bulk carriers (the maximum size for passing through the Panama canal) – in which two of the largest Danish yards, the Burmeister & Wain Shipyard in Copenhagen and the A.P. Moller shipyard near Odense, are specialists.

At the MTW Shipyard at Wismar, say the Danes, the yard will be able to build up to six supertankers a year, of 300,000dwt each, compared with vessel up to a maximum of 30,000dwt before restructuring.

The Kvaerner Warnow yard's new drydock at Warnemunde will allow it to build vessels of up to 180,000dwt compared with its present four slipways each for vessels up to 7,000dwt. Yearly potential capacity will be much more than doubled, according to the Danish association.

Similar changes in capacity are planned at Volkswerft (Stralsund), and Peenewerft, according to the Danes.

The Danish shipbuilders fail to see how this complies with the seventh directive's call for "a genuine and irreversible reduction in capacity" and point to an apparent discrepancy between the seventh directive and the Commission's wording when in May this year it approved the subsidies for the MTW Shipyard. In the case of MTW, the Commission declared that "The German government is requested to ensure that the volume of production is limited for five years," which is not the same as an irreversible reduction.

The Commission, say the Danes, has agreed to subsidies to the MTW Shipyard equal to about 70 per cent of annual turnover, not 36 per cent.

The MTW Shipyard is a test case, as it is the first of the yards for which the Commission's approval has been received. The Danish shipbuilders argue that the Commission's decision "will legalize a smilar practice" for the three other yards.

Under the seventh directive, all operating subsidies were to be paid out by December 31, 1993, but the latest tranche of operating subsidies was authorised by the Commission on May 11 this year, which makes the payments illegal, according to the Danish argument.

INTERNATIONAL PRESS REVIEW

David v Goliath over new trade HQ

WTO

By Frances Williams and Michael Lindemann

If the volume of press coverage were the deciding factor, Geneva would be the victor in the struggle with Bonn to host the new World Trade Organisation.

A final decision on the site for the WTO headquarters is due to be made by members of the General Agreement on Tariffs and Trade tomorrow.

The Geneva press, stridently vaunting the city's case, is portraying Switzerland as a penurious David battling valiantly against the superior political and economic might of the German Goliath.

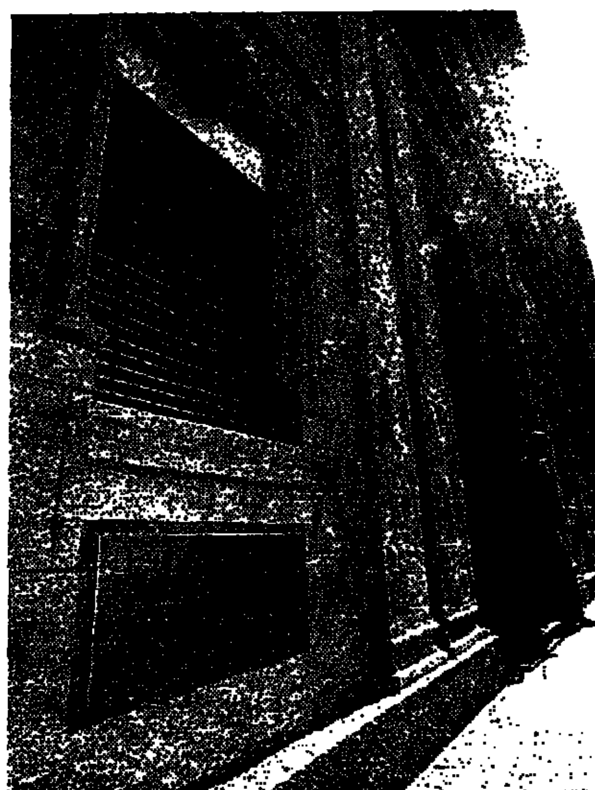
The *Journal de Genève* last week quoted accusations by Swiss officials of unfair German tactics, including rumoured promises of extra banana and coffee imports in return for votes.

Sniffily decrying such a brazen appeal to economic self-interest, the Swiss press argued that this bodes ill for the independence of a Bonn-based WTO. "You don't choose the headquarters of an international organisation like you would the venue for the Olympic Games."

Most people could be forgiven for being fooled. To tempt the WTO, both Bonn and Geneva have put up multi-million-dollar packages of office accommodation and diplomatic privileges for the WTO, its 450-500 staff and the associated diplomatic missions.

But, while Bonn has allegedly wooed with trade promises, Switzerland has appealed to the heart. Its offer allows Moslem diplomats to register two wives (Islamic law permits up to four), the only ploy so far to arouse international press attention.

The Germans refused to rise to the bait, preferring figures to frills. "Diplomats with several wives will be particularly well-sited in Bonn where the cost of living is one-third less than in Geneva," was the deadpan German response last week.



The present Gatt headquarters in Geneva — Jasper Dijonn Pressefoto

It was also calculated to raise Swiss hackles. The cost of living in Geneva is no more than 10-15 per cent higher than in Bonn, say Swiss officials crossly, citing United Nations statistics in support.

And if there were any further hesitation on cost grounds "states should know that, in Geneva's services sector, the rate of absenteeism for qualified personnel is 35 per cent less than in Germany and productivity is 16 per cent higher," according to the same Swiss officials reported by the Journal de Genève.

The German press has paid little attention to the duelling between the two cities. What little coverage there has been supported the government's view that an important trading nation such as Germany needed an international institution such as the WTO but otherwise focused almost entirely on what Geneva had to offer.

Even Bonn's own newspaper, the *General-Anzeiger*, which has campaigned relentlessly to keep the federal government on the banks of the Rhine, could do no better than a worthy article comparing the two offers in terms of free parking spaces, available office accommodation and tax-free perks.

The Swiss have taken more interest in the wider political backdrop. While Geneva has been assured of the support of France and other francophone countries, the position of the US is causing some concern. To push Washington in the right direction, the *Tribune de Genève* reported, US citizens in Switzerland have written to Mr Mickey Kantor, the US trade representative, to put Geneva's case.

Evoking nearly 200 years of US-Swiss friendship, the letter reminds Mr Kantor of 1801 when a Swiss, Albert Balatin, became US treasury secretary and negotiated the purchase of Louisiana.

If this does not impress him, there is the more recent role of President Woodrow Wilson in choosing Geneva for the headquarters of the pre-war League of Nations.

Yet, having urged the Berne government to fight for the WTO, some Swiss newspapers are beginning to wonder whether it has been too generous.

"Are we on course to create a class apart of international organisations whose privileges are disproportionate to the costs involved," asks *Le Nouveau Quotidien*, echoing the Zurich-based *Neue Zürcher Zeitung* a few days earlier.

It says officials in the Swiss finance ministry are grinding their teeth at the VAT exemptions, duty-free booze and petrol, tax-free pensions and the like being offered to diplomats in Geneva, concessions which will apply to all UN organisations as well as to the WTO.

The NQ quotes figures showing that the international organisations already cost the canton of Geneva SFr500m (£245m) a year.

In return, however, the organisations spend SFr3bn a year, provide some 23,000 jobs (8 per cent of total employment in the city) and fill 40 per cent of hotel space.

As for the little town on the Rhine, which is groping for a new identity after the federal government moves to Berlin, it is left with no concrete prospects if the WTO bid fails.

"Then we will have a new situation and have to take new decisions," sagely remarks Mr Lorenz Schomerus, a senior civil servant in the economics ministry, which is leading Bonn's campaign.

Saddam offers olive branch to Arab neighbour states

By Mark Nicholson in Cairo

Iraq yesterday offered "peace and security" to neighbouring regimes which had "misbehaved" towards Baghdad, in a speech by President Saddam Hussein apparently aimed at Kuwait, Saudi Arabia, Syria and Egypt.

Mr Saddam's remarks, in a televised address on the 26th anniversary of his ruling Baath party's ascent to power, are among the most direct since the Gulf war, aimed at mending relations with Arab states which opposed Iraq during the conflict.

Without naming any countries, Mr Saddam said he was offering peace to all neighbours, including "rulers who misbehaved towards us". He went on: "To him who would heal the disease of his soul, and has firmly determined to mend what has been spoiled... Iraq is ready to react positively."

Mr Saddam's speech is a further attempt to rehabilitate Iraq both among its neighbours and in the west, though it contained characteristically belligerent proclamations that Iraq remained unweakened and unbowed by its post-Gulf war isolation. "It has become known to everybody", said Mr Saddam, "that we fear no one but the Almighty."

The apparently placatory remarks, however, follow concerted lobbying by Iraq for the lifting of the four-year-old sanctions against Baghdad, which have increased in intensity as economic conditions in the country have continued to deteriorate.

The United Nations sanctions committee meets today to review the embargo against Iraq, and diplomats and UN officials say they expect the restrictions to be kept in place. Mr Tariq Aziz, Iraq's deputy prime minister, has been in New York lobbying Security Council members for the past week, arguing that Iraq has now fulfilled Gulf war ceasefire resolutions calling for the destruction and monitoring of its weapons of mass destruction.

However, the UN special commission on Iraq's weapons of mass destruction says it has not yet completed installation of its monitoring regimes for biological, chemical, ballistic and nuclear weapons. These, officials say, should be in place by September and would require at least six months' testing before the commission could conclude that Iraq was meeting the terms of the monitoring regime.

But diplomats in New York add that Iraq could effect a substantial improvement in the Security Council's attitude towards Baghdad if Mr Saddam's regime were to make a public and unequivocal commitment to the recognition of Kuwait's sovereignty and to its newly UN-defined borders – something at which yesterday's remarks perhaps hinted.

"If they came forward and did this, there would be an immediate effect," said one UN official.

Water and borders key to Israel-Jordan peace talks

Both sides are eager for a pact which would embody a post-prandial sketch made by Winston Churchill 66 years ago, James Whittington and Julian Ozanne report

Winston Churchill is said to have pencilled out the borders of Transjordan after lunch on a Sunday afternoon. As colonial secretary of a troublesome British Empire in 1928, he meant his sketch as a quick fix for mounting problems between Jews and Arabs living under the British mandate for Palestine.

Sixty-six years and three Arab-Israeli wars later, Jordanian and Israeli negotiators meet today along their disputed border hoping finally to agree on the demarcations laid out by Churchill.

These talks will set in chain a series of unprecedented meetings as the two sides edge towards a settlement. On Wednesday, Mr Shimon Peres, Israel's foreign minister will be the first Israeli politician publicly to enter Jordanian territory, where, accompanied by US secretary of state Warren Christopher, he will meet Mr Abdel Salam al-Majali, Jordanian foreign minister, at a Dead Sea resort.

And next Monday in Washington, King Hussein is to meet Mr Yitzhak Rabin, Israel's prime minister, for the first time in public in a summit described by Mr Peres as marking "the end of a state of war and the beginning of peace".

Although no final Jordanian-Israeli peace treaty will be signed in Washington, both the king and Mr Rabin are seeking tangible benefits to take home to critics of the peace process, many of whom are looking for ways to exploit the lack of momentum.

The gap between the two countries is not large. Today's talks focus on two key issues, borders and water. Israel has already agreed in principle to redrawing the border and Jordan is claiming 360-382 sq km along the Arava desert, which would entail moving Israeli barbed-wire fences back to Churchill's line of 1928. Israel is likely to concede a substantial part of this claim and seek other arrangements, such as a lease-back, for a strip of disputed land now being farmed by an Israeli kibbutz. Both sides are also likely to agree quickly on a maritime border.

The water issue is a little more difficult. Jordan, with one of the world's lowest per capita rates of water consumption, is demanding an increased water share from the Yarmouk and Jordan rivers, which it accuses Israel of diverting. Israel opposes a redistribution of water and favours the development of joint projects such as desalination plants to meet Jordan's water needs.

The future status of Palestinian refugees, a third thorny issue, is to be decided in a quadrilateral committee of Jordan, Israel, Egypt and the Palestine Liberation Organisation.

Resolution of borders and water could be resolved by next Monday's Washington summit. Details have been under negotiation for at least 18 months now, and the past month has involved numerous clandestine meetings. Israeli officials say the outline of a treaty is largely in place. Mr Peres said last week the border and water issues were "technical problems which can take time or be resolved quickly".

Israel can hardly hide its impatience to sign anything close to a peace treaty with Jordan. Such a move would be widely popular among the Israeli left and right. A second peace treaty with a hostile Arab neighbour since the Israeli-Egyptian agreement of 1979 would lessen Israel's sense of fear and isolation and would considerably bolster support for the peace process and for the Rabin government. Israeli officials believe it would also pile pressure on Syria, and hence Lebanon, to be more flexible in talks.

However, Middle East experts have said King Hussein, always a cautious risk-taker, is reluctant to move too quickly towards an official signing which would leave his powerful neighbour Syria exposed and marginalised.

On the other hand, he is anxious to win concessions from Israel on borders and water and present his deal to domestic critics as a victory for Jordan's territorial integrity.

The king is also keen to take several economically beneficial steps such as opening borders to tourists and trade and developing joint projects in the Dead Sea and Jordan Valley to boost his economy's flagging fortunes.

In Jordan the king's change of gear has been met with surprise and criticism. Less than two months ago officials and the state-run newspapers were talking of a comprehensive peace and praising Jordan's co-ordinated stance with Syria and Lebanon. Now they are trying to explain why the kingdom has broken ranks and is sprinting towards the finishing line.

One explanation is the weight of US pressure on Jordan to reach an agreement with Israel and the other is the king's frustration over the collapse of any common Arab stance and the lack of co-ordination with the PLO and Syria. The king is also anxious to maintain some influence on the embryonic Palestinian state emerging on his border.

In a weekend television appearance to sell his peace moves King Hussein mixed the promise of benefits, including a US promise to cancel $950m (£625m) in debt, with a blunt warning: "This country, under pressure from all sides, may collapse."

Religious Jews pray at the Wailing Wall in Jerusalem yesterday. Thousands gathered at Judaism's holiest site for the day of mourning which marks the destruction of the first and second temples. Reuter

Although the pessimism may be overstated, there is cause for concern. The kingdom's Moslem fundamentalists have condemned the latest peace moves. The Islamic Action Front, which holds the largest parliamentary bloc, said a Rabin-Hussein meeting was "forbidden by history". Unless the king is able to deliver real changes on the ground his Jordanian critics may wonder whether this new flurry of activity was all worthwhile.

Peres takes softer line on returning Golan Heights

By Julian Ozanne

With encouraging signs in peace talks with Jordan, Israel has also softened its position towards Syria and the vexed question of the return of the Israeli-occupied Golan Heights.

Mr Shimon Peres, Israeli foreign minister, said last week that Israel now recognised Syrian sovereignty over the strategic Heights, which the Jewish state seized in the 1967 Arab-Israeli war.

"The government of Israel has recognised Syrian sovereignty over the Golan Heights and the concept of peace based on international borders subject to the security needs of Israel," Mr Peres said.

Mr Peres also referred in a Foreign Ministry communiqué to a 1967 secret cabinet resolution which called for negotiations with Syria on the basis of withdrawal to the "international border" in return for full peace, demilitarisation of the Golan and guarantees of the flow of water to the Jordan Valley.

The foreign minister also spoke of the strong precedent of the 1979 peace treaty with Egypt which had seen the return of all Egyptian territory occupied by Israel.

Foreign Ministry officials said the formal recognition of Syrian sovereignty effectively relegated Israel's annexation of the Heights in 1981 and that Mr Peres' "far reaching" remarks were the broadest hint so far that Israel would yield all the Heights up to the 1967 international border in return for full peace and security guarantees.

The Israeli-Syrian peace talks have been deadlocked as Israel refused to specify how much of the Heights it would return to Damascus until Syrian President Hafez al Assad made a commitment to full peace including open borders, trade, tourism and the establishment of embassies.

Until now Israel has only spoken of a withdrawal "on" not "from" the Golan meaning a "significant" but not complete withdrawal. However, despite Mr Peres' apparent hints, Israel has still not met Syrian demands that Jerusalem formally declare it will withdraw to 1967 borders and return the entire Golan. Syria said Mr Peres' statements added nothing new, as Israel's recognition of Syrian sovereignty over the Heights was "a recognition of fact" in accordance with United Nations resolutions.

China snubs UK minister

By Our Beijing Correspondent

Prospects for a smooth transition by Hong Kong to Chinese control in 1997 dimmed at the weekend when the goodwill visit to Beijing of a UK Foreign Office minister, Mr Alistair Goodlad, ended in debacle.

China refused to let Mr Goodlad visit the mainland's top official responsible for Hong Kong affairs, Mr Lu Ping, in the third snub to Mr Goodlad during his visit.

The visit to Mr Lu, director of the Hong Kong and Macau Office, would have given the UK an opportunity to suggest new approaches to the long list of technical issues – including financing of Hong Kong's new airport and Chinese ratification of a raft of treaties and laws on such essential matters as air safety and the validity of business contracts – which the UK wants sorted out before the handover.

Instead, Mr Goodlad tried to convince Hong Kong journalists that his visit had been "most useful" and that relevant issues had been discussed thoroughly and courteously with other Chinese officials.

After the press conference, China's Ministry of Foreign Affairs issued a terse statement suggesting that the meeting was "not necessary" because of the Sino-British dispute over Hong Kong Governor Chris Patten's programme of political reform.

On Friday, Mr Goodlad had made a public appeal to China that the two countries should put this dispute behind them and get on with other unresolved issues.

Two hours later, Mr Qian Qichen, China's foreign minister, rejected this plea, in a stinging snub delivered as they met.

Investment in SE Asia up

By Victor Mallet in Bangkok

Foreign investment in south-east Asia is rising sharply after two slow years and domestic investment remains robust, according to figures from national investment promotion agencies.

Governments had feared that investors were losing interest in their countries and concentrating principally on China, where the market is exceptionally large and labour costs are low.

But statistics show that companies from Japan, the US and other developed economies continue to commit billions of dollars to south-east Asia for everything from electronics and vehicle components factories to new power stations.

Indonesia's Investment Co-ordinating Board said it had approved $5.33bn (£3.5bn) in foreign investment for the first six months of this year, up 23 per cent from the same period last year.

Malaysia reported approved manufacturing investments of M$10.5bn (£2.6bn) in the first half of the year (M$4.6bn from foreign companies), compared with M$4.3bn in the first half of 1993.

In Thailand, the Board of Investment (BoI) said it had received applications for $4.8bn in foreign investment in the first four months of the year, only slightly below the sum for the whole of 1993.

The Philippines, where Hong Kong and other foreign companies are investing heavily in new power stations, said its BoI approved projects worth a record P239bn (£5.75bn) in the first half, more than quadruple the amount at the same time last year and more than double the target for all 1994; both foreign and domestic investment rose sharply.

Technocrats wait in North Korea's wings

Kim faces a test of his ability to promote a new generation of reformers, writes **John Burton**

The postponement of the funeral of North Korean leader Kim Il-sung from yesterday to tomorrow has prompted speculation whether his son and designated successor, Mr Kim Jong-il, is facing unexpected opposition to his assumption of complete power.

Some analysts looking for clues to possible shifts in power in North Korea have interpreted the postponement as a political setback for Mr Kim Jong-il, who is expected to take formal control of the country after the funeral.

However, a more important indication of Mr Kim's political strength will be his ability to promote a new generation of technocrats soon.

North Korea has been ruled since the 1950s by members of the late president's extended family and a small group of ex-guerrillas who fought with Mr Kim against the Japanese in the 1930s. But since the late 1980s, a new generation of reform-minded officials, many related to the conservative ruling elite, have achieved prominence under the patronage of the younger Kim, according to analysts.

"North Korea has seen a generational struggle among the ruling elite in the past few years over the direction of the country's economic and diplomatic policy," says Mr Michael Breen, editor of Korea Countdown, a Seoul-based newsletter on North Korean affairs.

The reformers first came to the fore in 1988 under former prime minister Yon Hyong-muk. North Korea began a tentative opening to the outside world by joining the UN. Mr Yon held meetings with his South Korean counterparts that produced non-nuclear and non-aggression pacts between the two Koreas in late 1991.

But a conservative backlash became apparent in late 1992, reflecting frustration that North Korea's actions had not gained diplomatic recognition or economic aid from the west.

Mr Yon was dismissed and several key technocrats were subsequently demoted. The shake-up occurred shortly after disputes with the US and South Korea over inspections of the North's nuclear programmes first emerged.

North Korea's threat to withdraw from the nuclear non-proliferation treaty (NPT) in March 1993 may have been an attempt by the younger Kim to appease the conservative faction while achieving the goals of the reformers by forcing the US to grant concessions.

"If Kim Jong-il secures full power, he is likely to bring back those favouring changes in economic and foreign policy," says Mr Breen.

Analysts are closely watching the fate of two prominent technocrats, Mr Kim Yong-sun and Mr Kim Dal-hyon, to determine the future direction of North Korea. Both fell out of favour in the past year to appease conservative critics, but appear to be making strong comebacks following the death of President Kim.

Mr Kim Yong-sun was formerly the ruling party's secretary for international affairs and travelled widely, even attending a congress of the Welsh nationalist party, Plaid Cymru. In December 1992, he became party secretary for South Korean affairs in what was regarded as a slight demotion. He also lost his position as alternate Politburo member in December 1993. He favours ties with the US, Japan and South Korea, and expressed opposition to the North's threatened withdrawal from the NPT.

Mr Kim Yong-sun is believed a close confidant of the North's new leader. He was seen comforting Mr Kim Jong-il's sister during mourning ceremonies last week and is playing a prominent role in arranging the president's funeral.

He also received a delegation from the pro-Pyongyang federation of Korean residents in Japan and was responsible for notifying South Korea that the planned inter-Korean summit would have to be postponed, but not cancelled. His recent activities indicate that he will assume an important post in the new leadership.

Mr Kim Dal-hyon, the late president's nephew by marriage, was in charge of promoting foreign trade and visited South Korea in 1992 to tour industrial plants. He impressed South Korean officials with frank discussions about North Korea's economic problems.

He was appointed economic planning chief in December 1992, but was dismissed a year later and demoted to managing a synthetic fibre factory. Although he may have been a scapegoat for the country's economic failings, there have been reports in Seoul that one reason for his fall was that he allegedly accepted bribes from South Korean companies seeking factories sites in North Korea. But he has reappeared in the past week. In spite of his low ranking of 140th in the party hierarchy, he was among 100 selected to attend mourning ceremonies last week.

Mr Kang Song-san, the prime minister, is also regarded as in the reformist camp since he pushed for inter-Korean contacts in his first term as premier in 1984-86 and later promoted cross-border trade with the Soviet Union when he was governor of the north-eastern province of North Hamyong, now the site of the country's first free trade and investment zone.

INTERNATIONAL NEWS DIGEST

Germany joins moves to send aid for Rwanda

The German government yesterday provided an aircraft to carry humanitarian aid to central Africa, the first sign that Germany will join the international humanitarian effort for refugees fleeing fighting in Rwanda. However, a Bonn official said there were no further plans for the Bundeswehr, the German armed forces, to take part in efforts to put an end to the bitter fighting in the African republic.

In the Rwandan capital Kigali, UN officials said up to 2m Rwandans were on the move in southern Rwanda and a mass exodus there could become a crisis. In Geneva, the United Nations High Commissioner for Refugees (UNHCR), Sadako Ogata, appealed for an immediate ceasefire to avert a disaster as rebel forces drove tens of thousands of refugees and the defeated army across the border into Zaire .

Germany's move comes days after a decision by the constitutional court in Karlsruhe allowing German troops to join UN operations outside the Nato area. The government has taken part in a number of humanitarian operations in recent years, including Cambodia and Somalia, but the court ruling prevents opposition parties from contesting the decision as they had in the past. *Michael Lindemann, Bonn*

Hope for future of coal

The European Commission's drive to eliminate subsidies and deregulate markets will greatly improve coal's long-term chances of survival as a fuel for power generation and as a replacement for unpopular nuclear power, according to a new energy forecast by DRI, the energy specialists. DRI says coal's share of the fuel mix will decline between now and the end of the decade because of the growth in popularity of natural gas. But the shift to market-driven prices, as well as the growth of clean coal technology will raise its attraction as a fuel in the next decade.

DRI expects coal to show relatively small increases in real cost between now and the year 2015 as expensive indigenously produced coal is replaced by cheaper imports. *David Lascelles, Resources Editor*

Envoys missing in Algeria

There was no sign the ambassadors of Oman and Yemen to Algeria who were reported missing on Friday. The burnt-out car in which Mr Kacem Askar Djebrane and Mr Hilal Ben Salem were travelling was discovered 10km from Khemis El Kechna, at the heart of a region known as the "death triangle", south east of Algiers. The area has been over the past year the scene of bloody encounters between the security forces and supporters of radical Islamic movements who have, on and off, controlled some of the town and streches of the countryside. Violence has risen in recent weeks although the strict media censorship makes the task of estimating the exact level of violence ever more difficult. Last week seven foreigners were killed in the capital, bringing to 51 the number of foreigners who have lost their lives in the past 2½ years. Over the same period, an estimated 5,000 Algerians have been killed. *Francis Ghilès, London*

Ban on Shia sect teachings

The Malaysian government will ban the teachings of Darul Arqam, a radical Malaysian Islamic Shia group led the self-styled Abuya Sheikh Imam Ashaari Muhammad. In June, officials described Darul Arqam as a threat to national security and the government has accused Ashaari Muhammad of claiming to be the Iman Mahdi (the second prophet) and of building an armed, 313-member suicide squad trained in Thailand. No evidence has been produced on the suicide squads.

Although the Malaysian constitution espouses freedom of religion that has been interpreted to mean the freedom of the non-Malay races to practise non-Islamic religions, the government has in the past, detained Islamic radicals.

Darul Arqam, founded in 1969, claims a following of 10,000. Group publications say Ashaari preaches returning to life as the Prophet Mohammed decreed. He demands "undivided obedience" to his mind and teachings while rejecting armed revolutions and western politics and preparing for the day when he will be "handed over the administration of the country." *Christine Hill, Kuala Lumpur*

UK trade with Malaysia grows

Trade between Britain and Malaysia grew in the first quarter of this year despite a Malaysian government ban on British companies. Malaysia's exports to Britain rose to 1.26bn ringgit (£315m) in the first quarter of the year from 1.08bn ringgit for the same period last year. Mr Rafidah Aziz, Malaysian trade and industry minister, told parliament that both countries were taking steps to enhance bilateral trade. The Malaysian government banned British companies from government contracts in February in reaction to what it saw as negative press reports in Britain. Mr Rafidah said that during the first quarter of the year, nine projects involving joint ventures with British companies were approved. *Reuter, Kuala Lumpur*

IMF backing for Bulgaria

The International Monetary Fund mission to Sofia approved Bulgaria's reform performance and said it would ask the IMF board for additional funds to support its debt reduction deal.

Mission leader Mr Russel Kinkaid said $100m (£65.7m) would be released upon approval by the IMF board later this summer. A further $200m is expected to become available after the next review mission in October. The World Bank has also been asked for extra loans to fund Bulgaria's initial payments on the deal it recently signed with the London Club Commercial Bank Creditors. The agreement provided for 47.1 per cent reduction in Bulgaria's $8.1bn debt to a group of some 300 banks.

The IMF mission reviewed the implementation of Bulgaria's third standby arrangement with the Fund, approved last April. The IMF loans for this year includes $97m in standby credits and Systemic Tranformation Facility, totalling $320m. *Theodore Troev, Sofia*

Afghan hostages to go free

Pakistan yesterday confirmed that an Afghan warlord is due to release 11 Pakistani and two Chinese hostages today or tomorrow in a Saudi-brokered deal. Mullah Abdul Salaam "Rocketi", as the warlord is popularly known, ordered the kidnappings in retaliation for a Pakistani security forces' operation at his stronghold in Afghanistan's south western Zabul province, almost three years ago, in which three US-made Stinger missiles were recovered.

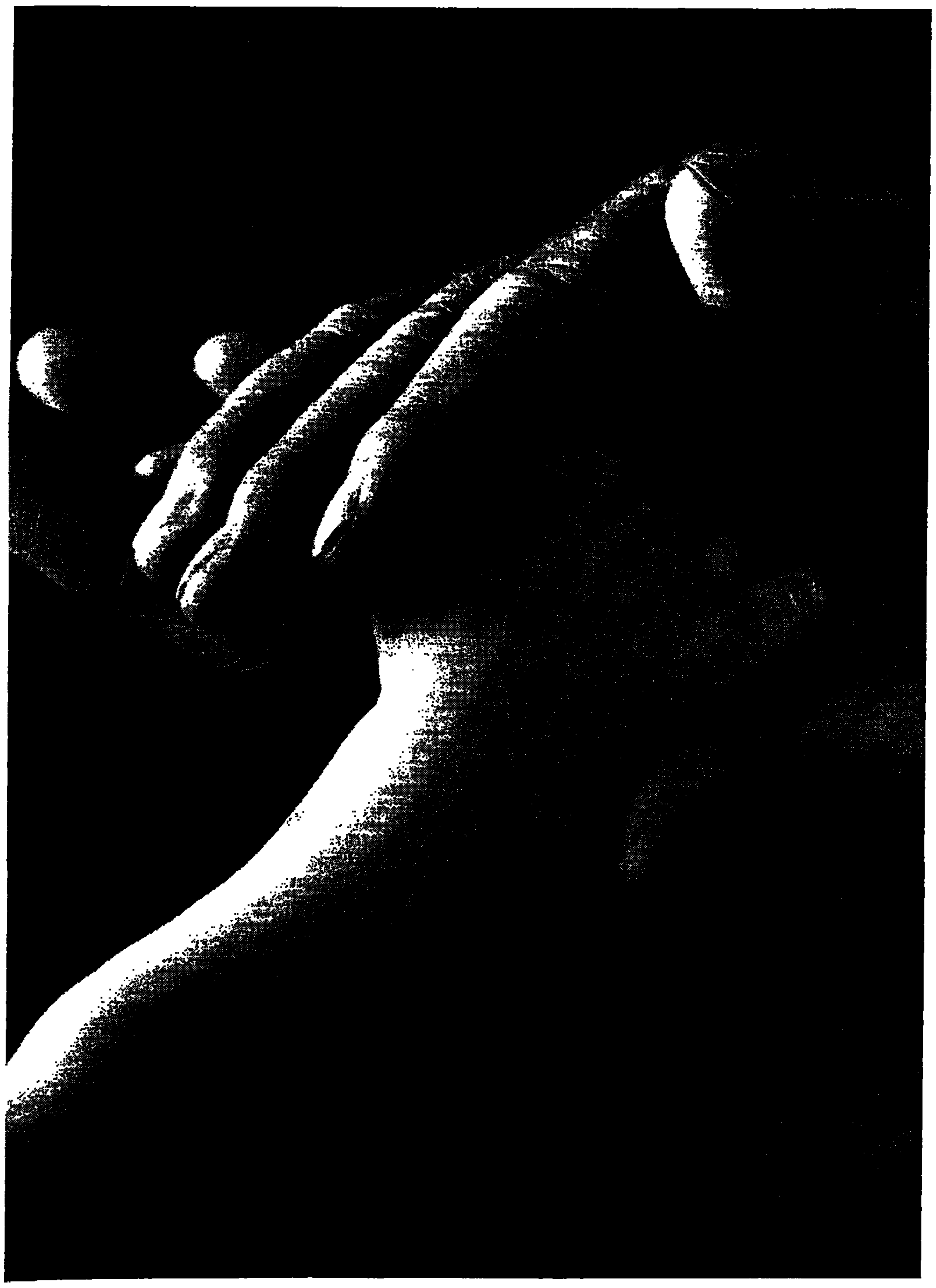
The anti-aircraft missiles were supplied under a CIA covert operation to back the Afghan mujahideen against Soviet occupation. US officials have been trying to recover them and western diplomats have been concerned over the possible threat to aircraft. It is not known how many missiles have been returned. *Farhan Bokhari, Islamabad*

Ritratto Italiano.

In every country, some companies, more than others, express that country's culture. It's what makes them unique. In Italy, it is names like Cirio and Polenghi. Think about it. Could these companies have been born in any other place? Or from different people? The answer is no, and it's easy to see why.

In 1860, Francesco Cirio had the idea to protect tomatoes in a safe and practical tin – he used the typical Italian creativity and flair appreciated all over the world.

Likewise, in 1870, Mr. Polenghi knew that a food as important and delicate as milk needed more selection at source and better protection during distribution. He applied that Italian courage and sharpness of mind admired and envied by the rest of the world. For over 130 years, these companies have never compromised their ideals about preserved food or given up their love for the land and its produce. They have enjoyed a privileged relationship with agriculture since the very beginning.



Today a great project has been realised – the gathering together of all the companies and brands such as Ala, Berna, Cirio, De Rica, Matese, Optimus, Polenghi, Solac, Stella and Torre in Pietra into one Group. Today, in 1994, the "Cirio" Group is born.

A Group that brings together the experience and resources, the traditions and innovative strengths, that are so intrinsically Italian.

A Group that shares a common industrial and production philosophy.

The "Cirio" Group benefits from a wealth of technology and employees with their sights set on the future. But at the heart of the "Cirio" Group is a heritage tinted with those three important colours – the green of the fields, the white of the milk and the red of tomatoes.

CIRIO

BIANCO, ROSSO E FUTURO.

The Cirio Group brands are: Ala, Berna, Cirio, De Rica, Matese, Optimus, Polenghi, Solac, Stella, Torre in Pietra.

Frosted coffee not so chilly for Brazil

By Angus Foster in São Paulo

A harsh southern winter is damaging the bushes worked by these coffee pickers in Brazil

The Brazilian media sped down south last week, and drove past the main story. Television crews were in a rush to film snowfalls in the southern state of Rio Grande do Sul, unusual in even the harshest Brazilian winter. Residents were shown making snowmen (well, knee-high snowmen) and writing rude messages in the snow about the new currency introduced this month.

Further north, though, in the country three main coffee-growing states, frost rather than snow was making the headlines abroad and raising coffee prices in London and New York. What with damage from a previous frost last month, up to half of the harvest next year may be threatened. London Robusta coffee prices have nearly doubled in a month, reflecting worries about reduced supply.

The media priorities were understandable, even so. Coffee is still one of the main products which the rest of the world associates with Brazil. But the coffee industry has lost its importance within the country and, although it has always been a popular drink among Brazilians, coffee still leaves a bad taste with those who link it with inequality of land tenure and the economy's reliance on foreign markets.

Coffee became big business in Brazil a century ago, when the state of São Paulo was found to have suitable land and climate. Slavery had been abolished nationally in 1888 and the state filled its need for cheap labour by attracting immigrants from poor regions of Europe, such as southern Italy and Germany, as well as Japan.

The fortunes made on coffee in the next decades, mainly by a few dozen landowners, turned São Paulo into Brazil's richest state. Accumulated capital helped to launch the country's industrialisation and led to the decline of coffee's relative importance.

Brazilian coffee exports, once responsible for more than half of foreign exchange earnings, last year represented only 3 per cent of total exports, or $1.2bn (£774m). São Paulo has slowly forgotten its roots. The Avenida Paulista, once the choicest address in São Paulo city for coffee barons, has been invaded by Brazilian and international banks.

In the countryside, coffee has been overtaken, in terms of area planted and export values, by soya and orange juice. But it is still an important crop and one of the biggest employers in the three main coffee growing states – Minas Gerais, São Paulo and Paraná. In these areas, the recent frost has caused severe problems for local growers and workers.

The Guaxupé co-operative, Brazil's largest, groups 6,500 producers from the three main regions. Mr Joaquim Goulart, technical manager, says the latest frost spared less than half of the co-operative's plants. "I'm 44 years old and remember the frosts of 1965, '69, '81 and '85. This was more serious, it hit areas which had survived before."

Brazil's winter lasts until the end of August, and forecasters are already predicting further frosts. "It's already serious, but it could become grave depending on the weather," Mr Goulart says. "About 80 per cent of our producers are small. They will feel the effects worse and have no other source of income. They have suffered from low prices in the last years, so there has been a lack of investment. In the worst-hit areas, they will not get back to normal for three years."

This disruption does not appear to concern customers in Café Martinelli, one of central São Paulo's smartest coffee houses. A group of brokers from the nearby stock exchange, sipping espressos at a price equivalent to 50 US cents joked that Brazilians may now have the chance to enjoy top-quality coffee, which is usually exported. "The government holds 16m bags which would normally be sold to Europe, but which will now be sold locally to keep domestic prices down," according to one.

This attitude partly reflects the popular Brazilian belief that the country's best products go abroad. The image of European superiority, which stems from colonial times, is also reflected in advertisements in many bars for "Italian roasted" coffee, even though the same coffee probably grows in Brazil.

The country's poorer consumers, who drink their coffee in tiny cups, *cafezinhos*, often with much sugar to change its bitter taste, have little time for such musings.

In a large supermarket beside the Avenida Paulista, one housewife had decided to stock up with 500g bags of ground coffee and was advising fellow shoppers to do the same. "The coffee companies will use the frost as an excuse for higher prices, whatever the government says," she argued.

Caracas plans tax rise to cut fiscal deficit

By Joseph Mann in Caracas

The Venezuelan government is studying a new economic adjustment plan, which would incorporate tax increases, in an effort to reduce the fiscal deficit. The programme should be completed over the next several weeks, according to Mr Julio Sosa, finance minister and the government's chief figure in economic policy-making.

The minister's statement follows demands by Venezuelan businessmen for the government to establish a coherent economic policy and anti-inflation strategy. Since the government of President Rafael Caldera took office in February, it has had to cope with a host of economic and financial problems, most of which were inherited.

Mr Caldera has frequently discarded free-market policies implemented under the previous government.

Venezuela's economic situation has worsened recently. There has been a sharp devaluation, inflation has soared and the confidence of investors has plummeted.

Mr Sosa stressed that the administration was working hard to attack a fiscal deficit projected at 9 per cent of GDP this year, and to lower the deficit to around 4 per cent of GDP in 1995.

Several proposals mentioned by government officials recently are likely to be included in the administration's adjustment programme. These are: a rise in domestic retail prices for petrol; an increase in a new wholesale tax (from 10 per cent to 12.5 per cent); cuts in deductions now allowed for income taxes; reforms aimed at speeding the privatisation programme and possible use of debt-equity swaps in privatisations; possible sale of some of the government's remaining shares in CANTV, the state telecommunications company privatised in 1991; and new efforts to slim the government.

Mr Sosa expressed the hope that recently announced controls on prices and foreign exchange transactions would be "temporary."

WORLD CUP

All eyes on the boiling bowl

"It never rains in southern California," goes the old 1960s song (Beach Boys? Jan and Dean? *Mammas and the Poppas*? No matter). That's still true, but the ground has been shaking a bit of late and these days you can barely see the San Gabriel mountains from the Rose Bowl even though they cannot be more than five miles away, *Jurek Martin writes from Pasadena.*

This lack of natural habitat – glowering, mountainous, wet – may explain Bulgaria's pathetic performance in the World Cup third-place game on Saturday. But it was also the setting for the big one – Brazil vs Italy – just after high noon, Pacific time, yesterday.

There is something of the Roman amphitheatre to the Rose Bowl. Its towers are faintly Romanesque. Its plain seating, for all of 102,000, offers no relief from the blazing sun, apart from that afforded the emperor and his court in air-conditioned sky-boxes.

The emperor this weekend was Alan Rothenberg, head of the World Cup operation and lord of all soccer in America, though doubtless Fifa's Joao Havelange claims equal status.

Certainly never before have so many Fifa officials, conspicuous in their smart blue-and-white striped shirts and ties, been gathered together at one time before; their principal task seemed to be to whip back into their seats any reporter daring to seek relief from the sun.

The court consisted of luminaries beyond number: Silvio Berlusconi and half the Italian government; Henry Kissinger, without whom, possibly, the tournament would not have come to the US for the first time; and what passes for glitter in Tinseltown. The senior aristocrat, Pelé, was, however, frying like the rest of us, doing his Brazilian TV commentary.

The World Cup is still pretty big locally – big enough on Saturday, in an increasingly Latino city, to draw about 95,000 to the Rose Bowl to watch a match between one country stretching into the Arctic Circle and another whose location 99.9 per cent of Angelenos would be pushed to define.

Fans of Sweden and Bulgaria may be getting anxious at this stage about the lack of reporting on the outcome. In journalistic parlance, an account of the same should be "broken out" – that is, rendered distinct and separate – much as the FT renders, for example, OECD country reports into dozens of vital, component parts. There are reasons for this obfuscation. The correct one is that nobody cares who finishes third in the World Cup, and many wonder why the match is played at all. (Fifa announced at the weekend that it would not be discontinued, so there). The real one is that the Bulgarians have given so much pleasure that it seems indecent to "break out" their worst peformance.

It was a perfectly pleasant and civilised match which featured four goals but had all the life of a left-over souffle. Curiously, all the goals were scored by Sweden and all in the first half.

The first and last goals, by Brolin and Andersson, came in the northern European manner, good headers from accurate crosses. Brolin made the second, for Mild, with a quickly-taken free kick, and Larsson ambled through a disconnected defence for the third. If Sweden felt they had something to prove after their negative approach to their semi-final with Brazil, they may claim vindication.

But the Bulgars never turned on; even the great Stoichkov found himself alone in front of Ravelli with a few minutes to go and muffed it. This inspired great rapport in the waning moments between the Swedish goalie and the crowd, compensating for any disappointment Ravelli may feel for not having made the tournament All-Star team.

That honour rightly went to another greybeard, Preud'homme of Belgium. He may have been beaten three times by Germany but miraculously saved twice that number and looked a cut above a not wholly distinguished goalkeeping crew. Only Ravelli, accorded "honourable mention," and Mohammed Al Deayea of Saudi Arabia, otherwise looked the part.

The rest of the list drew no controversy. Nor should it, since Pelé and Bobby Charlton were among the judges. It comprised Jorghino and Marcio Santos of Brazil in defence, along with Maldini of Italy, Dunga (Brazil), Balakov (Bulgaria), Hagi (Romania) and Brolin in midfield, and Roberto Baggio (Italy), Romário (Brazil) and Stoichkov.

Six of them, Baggio's hamstring permitting, were due to play in the final yesterday and for them, their team-mates and what promised to be the noisiest and most colourful crowd a World Cup final has ever seen, the Rose Bowl, heat and smog and all, was a fitting arena.

Bulgaria's Krasimir Balakov skips over a challenge from Sweden's Tomas Brolin during Saturday's Third-Place play-off game which Sweden won comfortably 4-0. Both players feature in the tournament's All-Star team AP

An uncertain future for US soccer's $100m promise

Patrick Harverson looks ahead to the problems to be faced in setting up Major League Soccer

When the US soccer establishment six years ago earned the right to host the 1994 World Cup, it made two promises to Fifa, the sport's governing body.

First, it promised that the US would put on a great World Cup; second, that the tournament would be so successful that it would leave a priceless legacy for the game in the form of a sustainable top-flight US professional league.

The US organisers have delivered on their first promise – and then some. The negatives have been few, the positives many, including record-breaking attendances, impressive TV ratings, peaceful crowds, superb organisation and, not least, plenty of exciting soccer.

Delivering on the second promise is likely to be a much trickier proposition, at least if history is anything to go by.

Since 1960, there have been six attempts to create a major professional soccer league in the US. All failed, mostly because of lack of support from fans, sponsors and broadcasters.

The most memorable was the North American Soccer League, which briefly burned bright in the 1970s with the help of international stars like Pelé and Beckenbauer. The NASL, however, collapsed little more than a decade later in bankruptcy.

If the new league – named Major League Soccer, and due to kick-off next April – is to avoid the fate of its predecessors, it has to start well. But progress so far has been unpromising.

When Alan Rothenberg, head of the US Soccer Federation, unveiled plans for MLS last December, he said he would announce at the start of the World Cup the names of the cities where the 12 league franchises would be based. By June 16, however, only seven locations had been chosen – Boston, Los Angeles, New Jersey, Washington DC, Long Island, San Jose and Columbus – and only one city, Columbus, had met the target of attracting deposits from 10,000 potential season-ticket holders that MLS originally required of all potential franchises.

Rothenberg was also unable to provide names of any corporate sponsors who had agreed to contribute to the $100m capital MLS intended to raise to pay for the running of the league. Since then, MLS has signed up Nike to provide kits for half the teams, and Mitre to provide the league's official ball.

Thus, with less than a year before the first ball is due to be kicked, MLS had an incomplete roster of teams and little money from sponsors.

What it did have was a TV contract – ESPN, the cable sports channel, and the ABC network have agreed to broadcast the games (at no cost to them, mind you) – and an organisational structure designed to ensure the league's financial survival.

In most unAmerican fashion, MLS is centrally-owned. All the teams and players are owned by the league, rather than individual franchises, as with every other major US sport. To keep the league competitive, MLS will control the drafting and movement of players, and set pay levels that are very low by US standards. The average salary will be $70,000 a year, with top players earning little more than $100,000 a year.

This structure might make good business sense, but it could deter potential owners who would like to own an MLS franchise but who might balk at ceding so much control to the league. And fans might not like the idea of a sports league where a single owner decides who plays where.

The limits on players' salaries could be an especially big problem. Everyone agrees it is crucial that MLS signs up some well-known players for its first season, especially some of the Americans who starred for the national team in the World Cup.

Yet the very success of the US team will make that difficult. The World Cup was such a good showcase for US players that many foreign clubs have already expressed interest in signing them to play abroad – at salaries that will dwarf those on offer in the MLS.

Pay may not be the only issue likely to deter US players from staying at home. If the US team is to improve its performance at the next World Cup, the squad has to have a larger contingent from the world's best leagues, which are all in Europe. It will be years, possibly decades, before the quality of the MLS rivals that of the top Italian, Spanish German and English leagues.

Although MLS's chief operating officer, Bill Sage, has said the league would be willing to pay top rates to attract some stars to the US, the money may not be enough on its own. It seems that US soccer officials are resigned to seeing most of the players in the US squad not already employed overseas sign with top foreign clubs in the next few months.

The success of the World Cup may prove a double-edged sword for MLS in another way. American sports fans have notoriously short attention spans, and the enthusiasm for soccer the tournament has generated is likely to have dissipated by next April.

And once MLS does start, Americans who were captivated during the World Cup by Romário's sleight-of-foot dribbling and Roberto Baggio's lethal finishes may find it a huge let-down when they watch a bunch of unknowns battling it out in a three-quarters-empty stadium somewhere on Long Island.

For now, though, the challenge is to raise enough money to get the league off the ground. Eager to use the World Cup as a launch-pad, Rothenberg and other MLS executives met potential corporate sponsors last week.

If they can secure the money to persuade some World Cup stars to join in the debut of MLS, then they may win over enough US sports fans – plus the weight of advertising and sponsorship dollars that are the difference between life and death for all big-time sports.

aracas plans
x rise to cut
scal deficit

Political parties set for change at the top

By James Blitz

The battle lines of British politics from now until the next election will be drawn this week with sweeping changes of top government ministers and the almost inevitable election of Mr Tony Blair as the new Labour leader on Thursday.

Mr John Major is likely to announce his Cabinet reshuffle on Wednesday, one day before the Commons rises for the summer recess, although it could come as early as today. The changes will pit a modernising Labour leader promising new political ideas against a government seeking to re-establish its popularity after two divisive years in which morale and cohesion have been sorely tested.

The new line-up of ministers will give Mr Major a chance to reassert his authority over a fractious Conservative party which has suffered setbacks in recent local government, European and parliamentary by-elections.

The new ministers will face a reconstituted Labour leadership. Also contesting the party's top job are Mrs Margaret Beckett, Labour's acting leader and Mr John Prescott, shadow employment spokesman. While Mr Blair, shadow home secretary, looks assured of victory, there is less certainty over the outcome of the contest for deputy leader. However, political observers believe it is increasingly likely that Mr Prescott will defeat Mrs Beckett for the number two post.

Commenting on the government reshuffle, Sir Norman Fowler, the outgoing Tory party chairman, said yesterday that the prime minister would aim to bring in new faces. "I imagine there will be quite a number of changes," he said.

However, it is thought unlikely that any of the three main offices of state will change hands.

Mr Kenneth Clarke, the chancellor, remains the standard bearer of the government's determination to restore the public finances to health. Mr Douglas Hurd is expected to stay as foreign secretary despite pressure from the party's right wing for a Euro-sceptic replacement.

Mr Michael Howard, home secretary, has had a difficult year pushing the Criminal Justice Bill through parliament, but political observers believe that his position is safe.

Instead, the focus of the reshuffle will be the appointment of a new party chairman to rally the party until the next general election.

Favourite for the post is Mr David Hunt, employment secretary. However, in recent weeks Mrs Gillian Shephard, agriculture minister and Mr Jeremy Hanley, armed forces minister, have been suggested. Some ministers are also backing Mr Brian Mawhinney, health minister, for the post.

Those most likely to leave their posts are Mr John Patten, education secretary, and Mr Peter Brooke at National Heritage. Mr John MacGregor, transport secretary, and Lord Wakeham, leader of the Lords, have been tipped to quit the Cabinet to take up appointments in the City.

MoD considers detailed plan for science cuts

By Bernard Gray

Britain's Ministry of Defence has admitted that it has no detailed plans of how it will save the £50m to £60m a year from its science research budget which was promised in last week's defence cuts. Nor is it sure where the proposed 1,300 job cuts will fall.

In spite of eight months' study under its Front Line First review, the ministry has yet to work out where to make most of the redundancies or where the proposed new science agency will be based.

The ministry has acknowledged that both the savings and job cuts figures given in the package of cuts last Thursday are estimates.

In its report the government proposed to set up a Science and Technology Agency to replace the multitude of smaller research operations currently spread around the country. It will cover all of the ministry's non-nuclear scientific research and will be modelled on the Defence Research Agency, which was established last year and is based at Farnborough in Hampshire.

Detailed proposals will have to wait until the new agency is established, which may not be until next April.

The ministry spends £600m a year and employs about 20,000 people on scientific research. It also funds about £1.8bn of development in private-sector companies.

The STA will have its own chief executive and budget and will act as a supplier of services to the MoD.

The STA's main divisions will be the Defence Research Agency with 8,500 staff, a test and evaluation centre employing 2,825, the Chemical and Biological Defence establishment at Porton Down with 615 people and a small defence operational analysis centre. A number of smaller groups will be consolidated into one of these divisions.

The DRA conducts most of the ministry's basic scientific research, while Porton Down studies chemical and biological warfare. The test and evaluation centre verifies weapons performance and runs some missile test ranges.

The operational analysis centre evaluates potential threats and projects what weapons systems might be needed to counter them.

The market-based efficiency improvements which were introduced to the DRA last year will be extended to the rest of the science divisions, and the ministry thinks that this will save £12m a year.

Philby (right) with East German intelligence chief Markus Wolf (left), in East Berlin in 1981 Reuter

Philby under the hammer

British master spy Kim Philby, who betrayed western intelligence to the Kremlin for 30 years, narrowly missed exposure as a committed Communist, documents to be auctioned on Tuesday show.

Books, papers and personal belongings of Philby, who died in 1988 in Moscow aged 76, are expected to fetch up to £90,000 for his widow Rufina at a London auction by Sotheby's.

One of the 128 lots includes Philby's trade union pass from an early trip to Austria and papers documenting his links with the Viennese Socialist Society, which would have raised suspicions if they had been discovered by British intelligence.

Philby, part of a spy ring formed by leftwing Cambridge University intellectuals in the 1930s, became a double agent working for British intelligence and supplying military secrets to the former Soviet Union.

Named as "The Third Man" after suspected traitors Guy Burgess and Donald MacLean fled to the Soviet Union in 1951, Philby himself fled to Moscow in 1963 when he was on the verge of being exposed.

Among a collection of about 50 photographs there is the only known photograph (shown above) of Philby and Markus Wolf, the famous head of East German Intelligence.

Philby's wallet, containing a press clipping from Izvestia announcing his defection, is also for sale, as are many KGB tributes to him, as well as a trophy for his 75th birthday depicting a globe circled by a Soviet spy satellite.

Liquidators in $1.8bn BCCI move

The liquidators of the collapsed Bank of Credit and Commerce International have moved a step further towards partial repayment to creditors by completing a formal agreement bringing in US$1.8bn from the bank's major shareholder, Simon Davies writes.

The legal agreement with the government of Abu Dhabi requires approval from the BCCI creditor's committee and then ratification by courts in the UK, Cayman Islands and Luxembourg. The creditors committee is expected to meet this week.

The latest proposal will see Abu Dhabi waiving rights to pursue US$2.2bn of assets, which it says were stolen by the bank, and it will make a direct contribution of US$1.8bn.

In exchange it will win an agreement that the liquidators will not take any legal action against Abu Dhabi, while the government has given a similar assurance to the liquidators. The legal document was based on heads of agreement between the two parties last March.

This is the second time that the liquidators have reached this stage. A previous agreement was blocked in the Luxembourg appeal court last October, on technicalities.

The earlier agreement gave only a range of compensation from US$1.2bn to US$2.2bn, depending on the realisation of assets.

Britain in brief

Mercedes in bus deal with Leeds maker

Optare, the Leeds-based bus maker bought from receivers by its managers and employees last December, has entered a joint venture with Mercedes-Benz to make and market large single-decker buses for the UK market.

Under the agreement Optare will produce 51-seat aluminium-bodied buses on chassis supplied by Mercedes-Benz, the world's largest commercial vehicle maker.

The buses are to be sold by both Optare and Mercedes-Benz. The first deliveries are scheduled for later this year.

Optare, employing 310 people, says that it is profitable and on course for a £27m turnover in its first year of independent ownership. It expects to deliver about 75 Mercedes-based buses in the first year, representing about 20 per cent of its output of buses and coaches.

Investor watchdog up and running

An extensive programme of consultation with the financial services industry is being planned by the Personal Investment Authority, the UK's new watchdog to protect the private investor which becomes operational today.

In the coming months the PIA will ask for views on a range of issues, such as the registering of all individuals who work in retail financial services, and training and competence requirements.

The PIA is starting work against a background of suspicion and reluctance even among some of the 3,500-plus organisations which have applied to join. It will consult in the autumn on extensions to the new regime for giving customers much greater information about financial products. This new disclosure regime will come into effect on January 1.

NHS drug savings of £50m identified

Britain's National Health Service hospital trusts could save more than £50m a year by changing their drug purchasing practices, according to a report published today.

Hospitals should maximise their use of drugs that have strong competitors and those widely prescribed by general practitioners, says the report from the London office of German management consultancy Roland Berger. It says that drug discounts average 45 per cent from the list price, but that discounts of up to 95 per cent are possible for drugs that face heavy competition.

The survey of more than 100 of the UK's trust hospital pharmacists finds that the companies that offer the biggest discounts are the two largest UK manufacturers, Glaxo and SmithKline Beecham. Those that offer the lowest are BOC, a supplier of anaesthetics, and Abbott Laboratories of the US.

NHS hospitals spend about £600m a year on drugs and influence much of the rest of the NHS which has a total drugs budget of about £3bn.

Asthma inquiry follows outbreak

The British government is to launch an inquiry into last month's unprecedented outbreak of asthma attacks.

Department of Health officials will this week begin writing to all health authorities in England requesting information on patients who suffered acute asthma attacks on June 24 following violent thunderstorms.

The move follows reports by hospitals, particularly in London and the south-east, of large numbers of people attending accident and emergency units in the 12-hour period after the storms.

Hospitals expect on average to treat between two and eight asthma-attack victims a day. However following the thunderstorms several reported that up to 100 people had come in for treatment.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:
METALLURG, INC., and SHIELDALLOY METALLURGICAL CORPORATION,
Debtors.

Chapter 11 Case Nos.:
93 B 44468 (JLG)
93 B 44469 (JLG)
(Jointly Administered)

NOTICE OF ENTRY OF BAR ORDER FIXING LAST DAY TO FILE PROOFS OF CLAIM AGAINST DEBTORS

TO ALL PERSONS AND ENTITIES WITH CLAIMS AGAINST OR EQUITY INTERESTS IN METALLURG, INC. OR SHIELDALLOY METALLURGICAL CORPORATION:

PLEASE TAKE NOTICE, that the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") has entered an order dated May 5, 1994 (the "Bar Order") requiring all persons and entities, including, without limitation, individuals, partnerships, joint ventures, corporations, estates, trusts and governmental units, EXCEPT THOSE PERSONS AND ENTITIES DESCRIBED IN PARAGRAPHS A THROUGH C BELOW, that assert a claim (as defined below) against, or equity interests in, Metallurg, Inc. or Shieldalloy Metallurgical Corporation (collectively, the "Debtors," and individually, the "Debtor") which arose prior to September 2, 1993 (the "Petition Date") to file a written proof of such claim, either (i) by mailing the original proof of claim to the United States Bankruptcy Court for the Southern District of New York, c/o Metallurg, Inc. or Shieldalloy Metallurgical Corporation, Bowling Green Station, Post Office Box 55, New York, New York 10274-0055 or (ii) via hand delivery or courier service to the Clerk of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Customs House, One Bowling Green, Fifth Floor, New York, New York 10004-1408, so that it is actually received at the appropriate destination not later than 5:00 p.m. (Eastern Daylight Savings Time) on or before August 15, 1994 (the "Bar Date"). Such proofs of claim will be deemed timely filed only when they are actually received by the Clerk.

As used herein, the term "claim" means (a) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or (b) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgement, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.

PLEASE TAKE FURTHER NOTICE THAT if you are required to file a proof of claim and fail to do so in the manner prescribed above, you will be forever barred from voting upon, or receiving a distribution under, any plan or plans of reorganization for any of the Debtors and will be forever barred from asserting any such claim or interest against either of the Debtors or their successors or assigns, EXCEPT THAT:

A. ANY PERSON OR ENTITY THAT HAS ALREADY PROPERLY FILED WITH THE CLERK A PROOF OF CLAIM AGAINST THE DEBTORS UTILIZING A CLAIM FORM WHICH SUBSTANTIALLY CONFORMS TO OFFICIAL BANKRUPTCY FORM NO. 10, NEED NOT FILE A DUPLICATE PROOF OF CLAIM.

B. ANY PERSON OR ENTITY (i) WHOSE CLAIM IS NOT LISTED AS "DISPUTED," "CONTINGENT," OR "UNLIQUIDATED" IN THE DEBTORS' SCHEDULES OF LIABILITIES PREVIOUSLY FILED WITH THE CLERK OF THE BANKRUPTCY COURT (AS MAY BE AMENDED) AND (ii) THAT AGREES WITH THE CLASSIFICATION AND AMOUNT SET FORTH IN SUCH SCHEDULES NEED NOT FILE A PROOF OF CLAIM.

C. THE CLAIMS DESCRIBED IN ITEMS 1-4 BELOW ("EXCLUDED CLAIMS") ARE NOT AFFECTED BY THIS NOTICE OR THE BAR ORDER AND, THEREFORE, ANY PERSON OR ENTITY THAT HAS AN EXCLUDED CLAIM NEED NOT FILE A PROOF OF CLAIM ON OR BEFORE THE BAR DATE FOR SUCH EXCLUDED CLAIM. ALL OTHER PROOFS OF CLAIMS MUST BE FILED ON OR BEFORE AUGUST 15, 1994 THE BAR DATE:

1. Any Debtor holding an intercompany claim against another Debtor;
2. Any non-debtor subsidiary or affiliate holding an intercompany claim against an Debtor;
3. Any holders of claims allowed by an order of the Court entered on or before the Bar Date and
4. Any person or entity (i) whose name is listed on the List of Equityholders filed with the Court by Metallurg, Inc. on October 6, 1993 pursuant to Bankruptcy Rule 1007 (a)(3), as amended on April 28, 1994, as a holder of outstanding shares of common or preferred stock or other equity security of Metallurg, Inc. and (ii) that agrees with the number and class of equity securities therein listed for such person or entity; provided, however, that an equityholder who wishes to assert a claim against either of the Debtors as a creditor of such entity that is not based solely upon ownership of an equity interest in the Metallurg, Inc. must file a proof of claim on or prior to the Bar Date unless (i) another exception provided for herein applies, or (ii) the claim is otherwise scheduled by the Debtor.
5. Any holder of a claim arising from the rejection of an executory contract or unexpired lease shall file any such claim on or before the date fixed in the order authorizing such rejection.

PLEASE TAKE FURTHER NOTICE THAT ALL PERSONS AND ENTITIES OTHER THAN THOSE DESCRIBED IN PARAGRAPHS A, B AND C ABOVE MUST FILE A PROOF OF CLAIM ON OR BEFORE THE AUGUST 15, 1994 BAR DATE. SUCH PROOF OF CLAIM MUST BE WRITTEN IN ENGLISH AND ANY AMOUNTS CLAIMED THEREIN MUST BE CONVERTED TO UNITED STATES DOLLARS AND CALCULATED AS OF THE PETITION DATE. FAILURE TO COMPLY WITH THESE REQUIREMENTS SHALL RESULT IN THE HOLDERS OF SUCH CLAIMS OR EQUITY INTERESTS, BEING FOREVER BARRED FROM VOTING UPON OR RECEIVING ANY DISTRIBUTION OF CASH OR PROPERTY UNDER ANY PLAN OR PLANS OF REORGANIZATION FOR THE DEBTORS IN THESE CASES, OR FROM ANY SUCCESSOR TO OR ASSIGNS OF ANY DEBTOR.

PLEASE TAKE FURTHER NOTICE THAT acts or omissions of the Debtors that occurred prior to the date of filing for relief under the Bankruptcy Code, including any Debtor's indemnity agreements, guarantees, or services provided to or by a Debtor, may give rise to claims against such Debtor notwithstanding the fact that such claims (or the injuries on which they are based) may be contingent or may not have occurred, matured or become fixed or liquidated prior to such date. Therefore, any creditor having a claim or potential claim against a Debtor, no matter how remote or contingent, must file a proof of claim on or before the August 15, 1994 Bar Date.

PLEASE TAKE FURTHER NOTICE THAT each proof of claim form filed must conform substantially to Official Bankruptcy Form No. 10 copies of which are on file with the Office of the Clerk of the Court. Proofs of claim must be filed either (a) by mailing each such proof of claim so that it is RECEIVED on or before August 15, 1994 to:

United States Bankruptcy Court
for the Southern District of New York
c/o Metallurg, Inc. or
Shieldalloy Metallurgical Corporation
Bowling Green Station
Post Office Box 55
New York, New York 10274-0055

or (b) by sending your original proof of claim via hand delivery or courier service to the Office of the Clerk of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, Fifth Floor, New York, New York 10004-1408 so that it is RECEIVED at the applicable destination on or before 5:00 p.m. Eastern Daylight Savings Time on August 15, 1994.

PLEASE TAKE FURTHER NOTICE THAT copies of the Debtors' respective Schedules of Liabilities and Metallurg, Inc.'s List of Equityholders are available for inspection during the hours of 10:00 a.m. to 12:00 noon and 2:00 p.m. to 4:00 p.m. during the days of Monday through Thursday at the Office of the Clerk of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, Fifth Floor, New York, New York 10004-1408.

Dated: New York, New York
May 5, 1994

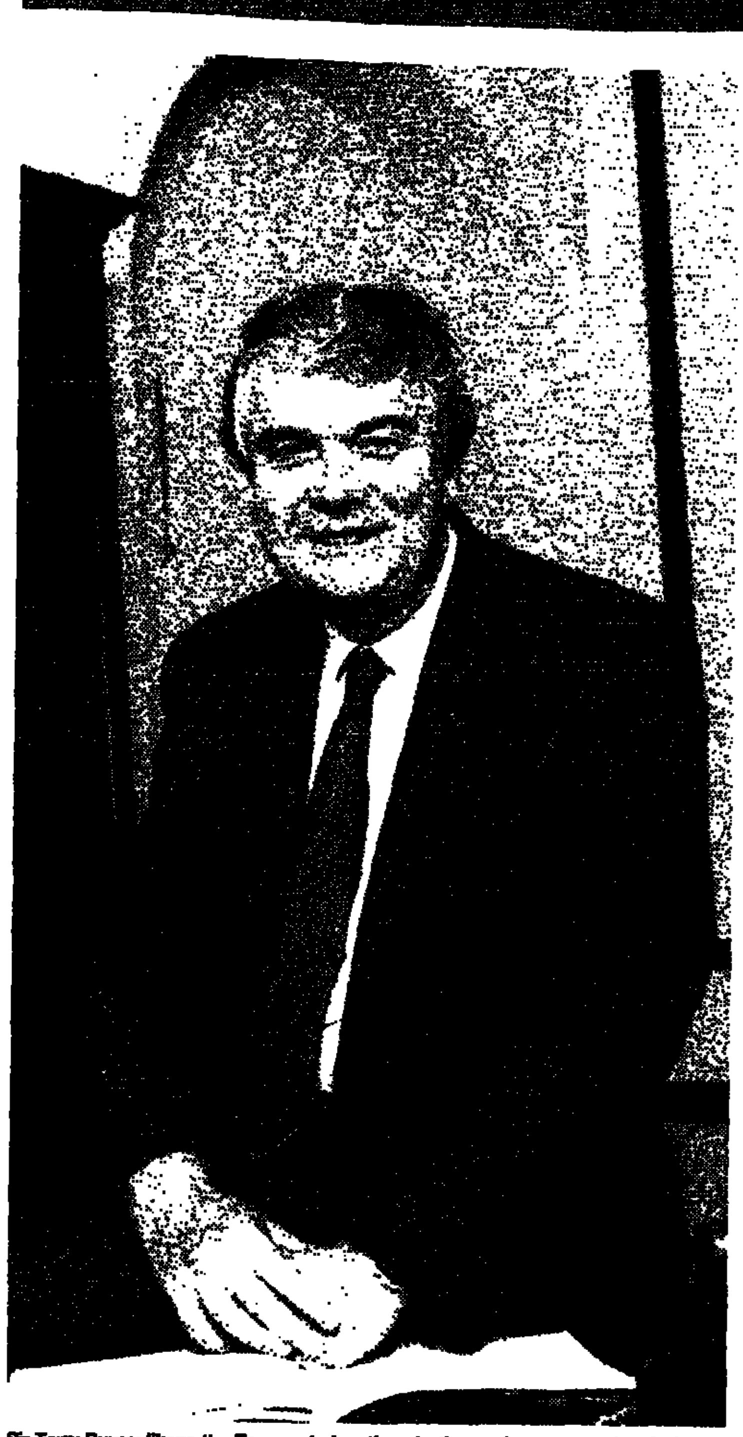
BY ORDER OF THE COURT

THE HONORABLE JAMES L. GARRITY, Jr
UNITED STATES BANKRUPTCY JUDGE
UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
ALEXANDER HAMILTON CUSTOMS HOUSE
ONE BOWLING GREEN
NEW YORK, NEW YORK 10004-1408

MANAGEMENT

Cultural revolution in Whitehall

Following last week's White Paper, **Peter Norman** looks at the Treasury's plans for reform



Sir Terry Burns: likens the Treasury's functions to those of a company head office

Sir Terry Burns, permanent secretary to the Treasury, feels rather like a harassed home-owner who started some necessary repairs and has found more and more problems that need solving.

What began in early 1992 with an internal enquiry into the style, workload and external image of Whitehall's pivotal ministry has burgeoned into a drive for management reform and a crusade to change the Treasury's culture in readiness for the 21st century.

Reform is in part externally generated. The Treasury, which oversees the government's economic and budgetary policy, is having to adapt to decentralisation and delegation among its "client" ministries in Whitehall. Even before last week's White Paper for restructuring the Civil Service, the creation of more autonomous bodies such as next step agencies, and the questioning of traditional civil service activities were forcing the Treasury to change its ways.

More subconsciously, the Treasury is trying to put five difficult years behind it.

It has been blamed for policy failures such as the early 1990s recession and Britain's exit from the European exchange rate mechanism in September 1992 and accused of failing to understand the needs of British business.

It has problems of sagging morale. Earlier this year, an attitude survey of its 1,400 staff revealed deep unhappiness. While senior officials complained of long hours when these were spent on unnecessary work, staff lower down feared for their jobs in the event of contracting out activities to the private sector and market testing.

Add to all this, the launch of the fundamental review of the Treasury's spending and running costs – announced in the November 1993 Budget – and the scene is set for a large-scale, internal shake up.

Change at the Treasury "is like starting work on part of your house where you can see it needs a significant effort, and finding that is just the beginning," Sir Terry says. "You start wanting a new kitchen, and you suddenly discover you need new wiring. Change becomes more difficult because the scale of it increases."

Sir Terry likens the Treasury's functions to those of a head office in a company. Spending decisions, for example, are decentralised in other departments, leaving the Treasury to hold the ring and ensure that policy is coherent.

But if management practices change elsewhere in the system, then the role of head office also has to change.

The emphasis in other ministries on setting objectives against which the management of agencies can be judged is difficult to reconcile with a detailed "command and control" style of management of public-sector activities by the Treasury. In the present review, Sir Terry says the Treasury "is looking quite fundamentally at the sort of jobs we do and asking 'Should we be doing them?'".

He wants to place more emphasis on setting the agenda and getting the framework for policy right so that the department is less involved with detail and second guessing others.

Because of the breadth and depth of the department's self examination, the Treasury has adopted a gradualist approach to change. It is not following the example of the Bank of England, which recently started and completed its biggest management restructuring since 1980 in just six months, at the cost of some bruised feelings in Threadneedle Street.

But change is under way in the form of management delayering and pushing down responsibility to lower levels. Late last year, the Treasury effectively took out a layer of top management immediately below permanent secretary level.

Its top mandarins are now known as directors. They have greater responsibility for their budgets than before and their duties are more clearly defined in their job titles. This is partly to emphasise the very different tasks carried out inside the Treasury and to create clearer entities in the department in the belief that this also can help push responsibility downwards.

Further detailed work on the organisation of directorates and the allocation of resources inside the Treasury is being carried out as part of the fundamental review. This task has been handed to Jeremy Heywood, a young high-flyer and formerly principal private secretary to chancellors Kenneth Clarke and Norman Lamont.

However, change at the Treasury is not just about organisation charts. Inspired partly by the attitudes survey and his own experiences since entering the Treasury in 1980 when he came to fill the post of chief economic adviser from the London Business School, Sir Terry also wants to change the Treasury's culture.

"I'd always been slightly worried about the general relations that the Treasury had with the outside world," he says. On becoming permanent secretary in 1991, he gained a greater insight into the nature of the Treasury's relationships with other parts of Whitehall.

"People who were really quite quiet would write the most strident letters backwards and forwards to each other," he recalls. "When I'd say, let's have something more polite that makes the point, they would often turn round and say 'fine'. They weren't always happy writing strident letters either. That was just the way it was.

"That's what culture is. It is where people inherit styles and ways of doing things and it often turns out that each individual in the process is not really very happy with it.

"That is when a change of culture is needed. What we are doing now is trying to bring about a lot of the changes that people themselves actually want to make, but which have not been properly articulated."

DESERT ISLAND MANAGER

Sir John Harvey-Jones

Sir John Harvey-Jones, former chairman of Imperial Chemical Industries and now a leading management consultant, is undaunted by the prospect of life on a desert island. His years in the Royal Navy as a submariner and latterly as a solo yachtsman have taught him how to cope with being alone.

What would you need to run your business life?
I would need a computer with a modem to collect E-mail. I would sign on to the Internet and that would give me access to virtually any area of debate I wanted to get into.

I came to computers fairly late in life. One of my great regrets is that I never learned to type properly; I am still a two finger man. I could do a lot of business by phone but I really prefer to meet face to face. All my work is about persuading people. For that you need direct contact to be able to read someone's body language.

Would you miss the hub-bub of an office?
I am quite good at being on my own. I an interested in nature, particularly birds. We have a Noah's Ark of animals at my home.

From being at sea I get an almost sensual pleasure at changes in the seasons. But I am not introspective. I need to reach out to relate to others.

Would you become a beach bum?
I am pretty self disciplined. I would not just fall into apathy under a palm tree. For many years I have woken at between 5.30am and 6.00am.

I would continue to do that, although I can sleep at anytime, for anytime. So I can lie down for 20 winks and be out for hours unless someone wakes me.

How would you keep fit?
My life has been dedicated to being unhealthy. The business of cleaning and tidying up would be enough to keep me in trim. The one characteristic which successful people have in common is that they are robust, physically and mentally.

You could have one book and one film.
The book would be *Loom of Language* by Frederick Bodmer about philology. The film would be a CD-Rom guide to the National Gallery in London.

You can have one type of food.
Vegetarian curry with rice. I am very nearly a vegetarian and always eat vegetarian curry when we are in India.

One person could accompany you. Who?
It would have to be my wife. We have been married for 47 years, but one cost of the kind of life I lead is that we have not spent as much time together as we would like. There are still so many ranges of experience we have not explored.

What would be the frustration of being stranded?
Not being able to contribute to the debate about business in Britain. It is old fashioned I know but I was brought up to believe that duty was very important, that you should contribute something to your country and that if you did not you were not much of a person.

Charles Leadbeater

In search of female mandarins

Gillian Tett reports on attempts to promote a women-friendly image

Ten years ago Alice Perkins was trapped on a typical working woman's treadmill. As mother of two small children, she was holding down a high-flying civil service job – and spending, she says, "every waking hour feeling completely exhausted".

Now, as one of the top three women in the Treasury, Perkins is a walking advertisement for management change. She is now working a four-day week, having recently moved to head of defence policy and materiel.

Her story is rare in an institution still largely dominated by sober, workaholic men. But if Sir Terry Burns, Treasury permanent secretary, is to be believed, it could become more common. For after decades of being perceived as a bastion of male mandarins, the Treasury has embarked, as part of a wider management shake-up, on an initiative to promote a new "women-friendly" image.

The programme has already challenged some hallowed traditions. In an attempt to change the workaholic culture, the Treasury's "sin list" that used to name officials who had failed to meet deadlines is fading from view; at another, the Treasury has joined the government's pro-women "Opportunity 2000" programme and has drawn up targets to monitor the gender balance at different levels of the organisation.

But the changes are also raising a broader question relevant outside the Treasury's walls – namely how far can an institution use a wider management shake-up to further the cause of the women in its ranks?

The starting point of the Treasury's initiative is embarrassment over its own statistics. Women currently make up 43 per cent of the Treasury staff. But they hold only 9 per cent of the top 124 jobs. And though this percentage is growing, it remains far lower than the proportion of women entering the "feeder" ranks below.

Quite why women should be so under-represented is a matter of some dispute. As officials point out, the proportion is not dramatically worse than in most other civil service departments. Indeed, many believe that the real problem lies in the outside world and the low proportion of female students who study economics.

Moira Wallace, a senior official in the general expenditure policy group, says: "One problem is getting women to apply – people do tend to assume you need a degree in economics to work here which is not true."

But those women who have arrived – often from other civil service departments – admit the institution itself is also to blame. There is little sexual harassment or overt prejudice, they say – with the offices largely staffed by earnest men, the atmosphere has none of the aggressive banter that marks some City banks. But this British reserve conceals more subtle factors that have left some women uneasy.

One practical problem has been the workaholic culture which can penalise women with child-care commitments.

Another factor is the sheer atmosphere of a building dominated by long, gloomy corridors. Carol Scott, a personnel assistant, for example, arrived from an open plan office in the Department of Trade and Industry – and suffered a distinct culture shock. The Treasury, she found, was a world of closed office doors where "no one ever said hello to anyone".

But although these gripes are widespread, finding a consensus about how to tackle them has not been easy. Although a women's network was set up last year, it initially provoked some unease. As one woman admits: "Women are not keen to be seen sticking out their necks here."

After the network held a series of discussions with Sir Terry, the initiative generated more enthusiasm. Nevertheless most women remain adamant that it should not carry any "women only" tag and that "positive discrimination" in the form of, say, a quota system for office jobs should be avoided.

"We are not wanting to focus just on women's issues – this affects both men and women," says Caroline Slocock, head of Treasury personnel policy. "In the past men thought you had to work all hours to prove your commitment. Now that is being challenged. Families are not just about women but men too."

In practice, this means that targets for flexible working practices are to be introduced across the building. A new, friendlier office culture is to be promoted in special "awareness" courses – although not compulsory they have been attended by 75 per cent of the male and female staff so far.

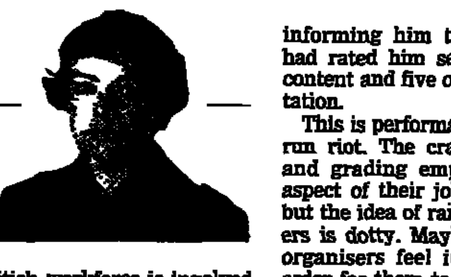
And to ensure that the men do not feel excluded, they have been invited to selected meetings of the women's network – to discuss, among other things, the issue of "image".

The acid test of these low-key tactics will be whether they actually result in any more female mandarins. But so far, at least, they appear to have defused any backlash.

Mutterings persist about a few middle management "dinosaurs". Senior – male – managers say publicly they are enthusiastic. But rank and file male officials appear to have responded in true Treasury style – with a polite, albeit cautious, nod.

TECs – the perfect after-dinner topic

LUCY KELLAWAY



Did you know that last week was the TECs' annual conference? Do you know what TEC stands for? Can you name two British figures who are important in training? Can you say anything cogent about the training debate at all? Do you care?

Good for you if you can confidently answer yes to all of the above. I do not usually advertise my ignorance, especially on a subject that we are told is the key to the country's competitiveness/to all our tomorrows etc etc. But I have done some soundings and found that my blind spot on training is shared by a large number of otherwise well-informed people. At the first mention of TECs (Training and Enterprise Councils), NVQs or IIP, we go blank. And by the time the conversation swings round to CENs, let alone EBS, or FCWG, we have unplugged ourselves altogether.

If this crucial subject is not treated as a yawn, it is regarded as a laugh. My husband recently gave an after-dinner speech to a group of personnel managers in the City. He started with the usual jokes, which met polite laughter; moving along rapidly to the serious part of the speech he mentioned TECs. This brought the house down.

The poor old TECs have been valiantly trying to raise their image. They have retained Des Wilson, the most fanatical campaigner of them all, and a team of highly paid PR people at Burson-Marsteller. But so far, the only big publicity they have had was a television programme alleging that some TEC money had been handed out to dodgy trainers.

The problem is partly one of presentation. The general talk about training is full of platitude and hyperbole. Take David Hunt's sentimental speech last week about how training matters because it is the future of his 13-year-old daughter. (I have a hunch that his daughter will be OK whatever the TECs are up to in the year 2000.) Everyone knows that training is vital, to go on saying that is not interesting. But once you get to the meat of the discussion, it quickly becomes technical and complex. The subject is dry, incremental and full of initials: a crashing bore to all but the faithful.

And the faithful themselves don't help. There is a missionary zeal about them: a chance encounter with a training expert full of talk of "competences" and I start feeling like the wedding guest in *Rime of the Ancient Mariner*.

Maybe none of this matters. It couldn't be less important whether the chattering classes are preoccupied with training. What matters is that someone is getting on with doing it. And the news from last week's conference that 12 per cent of the British workforce is involved in Investors in People sounds encouraging. I still don't really know what IIP is, but so long as the companies involved are enthusiastic that is what counts.

Returning to the subject of speeches that do not go quite according to plan, a management consultant friend recently addressed a group of senior managers on the subject of partnership sourcing. He felt he had acquitted himself with credit and was therefore a little put out to get a letter a couple of days later informing him that his audience had rated him seven out of 10 on content and five out of 10 on presentation.

This is performance measurement run riot. The craze for appraising and grading employees on every aspect of their jobs is bad enough, but the idea of ranking guest speakers is dotty. Maybe the conference organisers feel it is necessary in order for them to know who to ask back next time. But why on earth would the speaker want to hear the verdict, especially one expressed in a meaningless number? Next time I have a dinner party I shall ask my guests to grade their fellow eaters, and give marks for the food, too. And then we'll all know in a handy modular way what others think of our small talk and of our cooking.

The traditional macho manager will be extinct by the year 2001. He will be replaced by a natural team leader who is loved and respected by colleagues. He – or just as likely she – will be a class communicator, responsive to change, a whiz at strategic planning, good at coaching and delegating – a true hero or heroine.

I can't help feeling there is some wishful thinking in this picture, as presented in today's survey from the Institute of Management. The number of women managers is, if anything, falling and it is hard to believe that an explosion of numbers is on the way. Moreover, the changes being forced on managers are just as likely to turn them into nervous wrecks as into rounded collegiate players. So far, restructuring has meant executives taking more load on themselves, going through the nasty business of firing others and worrying about their own jobs at the same time.

The IM survey thinks management training will shape the brave new boss. But as I read about the MCI, about transferability/accreditation of skills, I find my mind going regrettably blank . . .

BUSINESS TRAVEL

Italian strike

Italian air traffic controllers are to hold a one-day strike on Friday, affecting national and international flights.

The strike, called by Italy's three big trade unions, will take place from 7am (0500 GMT) to 3pm (1300 GMT), the CGIL, CISL and UIL unions said in a joint statement.

The strike will cause further problems for air travellers in Italy. Journeys were disrupted by a series of strikes at state airline Alitalia at the beginning of the month.

Russia to Japan

Aeroflot, the Russian international airline, opened a new route from the far eastern city of Vladivostok to the central Japanese town of Toyama last Friday.

Aeroflot will fly the route once a week, using Tupolev Tu-154 airliners, which can carry about 160 passengers.

Australian fares

Gone are the heady days of ultra-cheap fares on Australian domestic flights, *writes Nikki Tait in Sydney*.

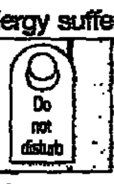
Efforts to "deregulate" the nation's airline industry and encourage competition from new carriers have proved largely abortive, and the market has returned to a duopoly, with Ansett and Qantas (now incorporating Australian Airlines) as the two nationwide carriers. Average fares edged up by 6.5 per cent in the year to March, and now stand about 25 per cent below the pre-deregulation levels of 1990.

Air news in brief

Long delays at Athens airport will continue, because of a big seasonal increase in flights, Mr Theodoros Pangalos, Greece's transport minister said last week.

A Palestinian airline will start up in mid-August to link the self-ruled Gaza and Jericho with Cairo. The airline will start with helicopters and then switch to jets.

Allergy sufferers



The Basle Hilton, which has just been renovated, has designed seven of its 214 rooms to meet the special needs of allergy sufferers, the tall, the blind, the deaf, the elderly and other handicapped people, *writes Ian Rodger in Zurich*.

This laudable effort is not believed to be related to the fact that the hotel is frequently used by central bankers attending meetings of the Bank for International Settlements next door.

In the four rooms for allergy sufferers, parquet floors replace rugs, special varnishes have been used, and non-allergenic wallpapers, wallpaper pastes and bedding have been chosen. Additional air filters minimise dust.

For the blind, there are braille newspapers and menus. For those with weak sight or hearing, an under-pillow vibrator serves as an alarm clock. The tall can find extra long beds (2.2m) and high desks.

These services come at no premium to the double-room rates of SFr270 to SFr390 (£130 to £188) a night, and the hotel undertakes to give SFr5 to charity for each night the rooms are occupied by a handicapped person.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	31	30	30	30	30
Hong Kong	32	31	31	33	33
London	26	24	27	28	28
Frankfurt	29	27	28	30	29
New York	30	31	33	32	31
L. Angeles	28	29	29	29	30
Milan	31	31	27	28	29
Paris	26	23	26	28	29
Zurich	26	25	21	23	24

Maximum temperatures in Celsius
Information supplied by Meteo Consult of the Netherlands

Peter Wise offers tips on getting around and staying in Lisbon – and the etiquette of doing deals

City for explorers

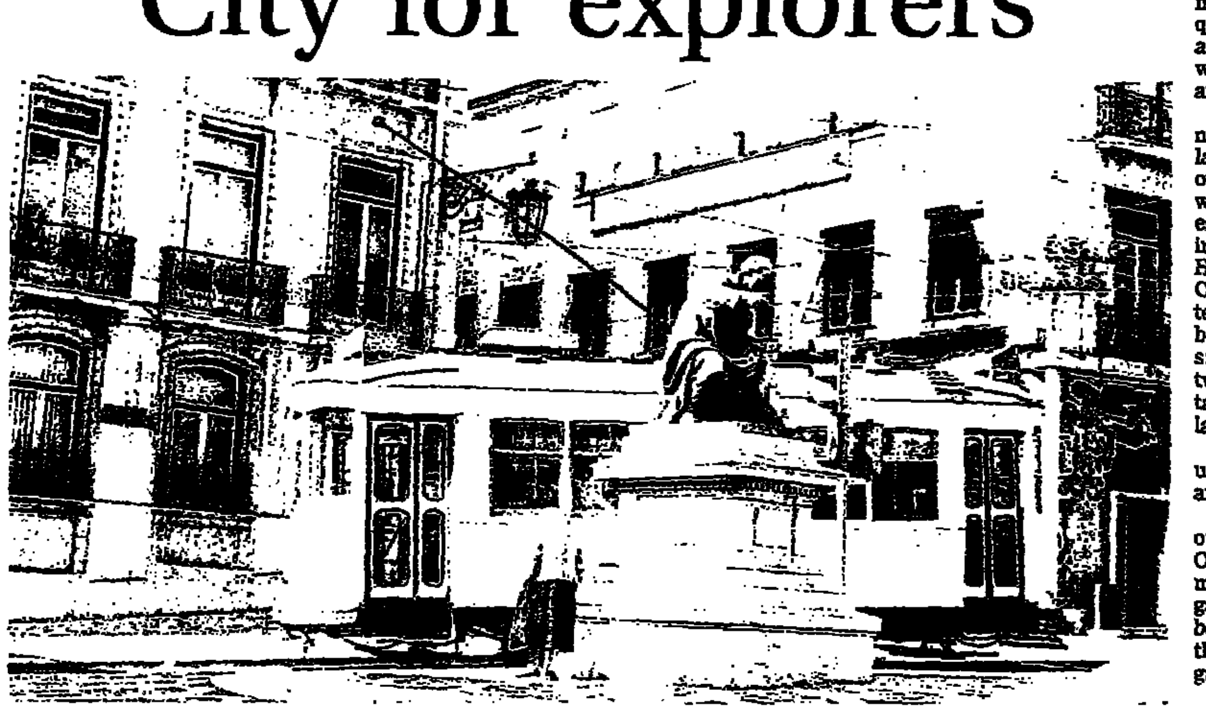
The Portuguese, with self-deprecating humour, like to describe Lisbon as a city of the developing world, rather than a European capital. The country's *historical involvement* with Africa, Asia and the Arab world is evident in the city's architecture, culture and cuisine – but on a technical level, it functions almost on a par with the most modern of its European counterparts.

Doing business in Lisbon is rarely *arduous and the hospitality of* the Portuguese usually makes it a pleasure. The city from where discoverers such as Vasco de Gama and Fernão de Magalhães (Magellan) set out in the 15th and 16th centuries enjoys being discovered by newcomers.

Lisbon will be welcoming more and *more foreign businessmen* over the next few years, as the host to Expo '98 and the promoter of important infrastructure projects, including new road and rail crossings over the Tagus river.

Visitors will discover that taxis are the best way to travel. They are cheap, *reliable* and *plentiful in the* city centre. Except at rush hours, nowhere is much more than 20 minutes away. Unless you are travelling to the country's interior, it is not worth hiring a car (but if you do, it is often cheaper to book outside Portugal).

There are good reasons for hailing a cab. First, it is virtually impossible to park in Lisbon. Second, public transport is *crowded and uncertain*. The yellow trams are fun but slow. Third, driving in Lisbon can be frightening. Portugal has the highest road-accident rate in Europe. US soldiers at a Nato base on one of the most dangerous roads out of Lisbon have had T-shirts printed saying "I survived the *Marginal*".



Lydia van der Meer

Lisbon's yellow trams are fun but slow – taxis are a more reliable way to travel to appointments

The few sharks among Lisbon taxi drivers wait around the airport. The most frequent trick is to clear the meter when you reach your destina*tion and ask for a higher fare*. There is a 50 per cent surcharge for heavy luggage, but it should be registered on the meter. Tolls are not shown, and are charged double to cover the driver's return.

Company headquarters, banks, financial markets and government departments are *scattered around Lis*bon. But most are within easy reach of the main hotels.

The Tivoli, Ritz, Meridien and Sheraton offer the best five-star accommo*dation. However, businessmen are* increasingly staying at new three- and four-stars hotels. The Sol Lisboa, Amazónia and Dom Rodrigo Lisboa, which offers self-catering apartments for longer stays, provide good service and ample space.

Most Portuguese businessmen *speak English and French. A single* foreign visitor is enough for a meet*ing of 20 Portuguese executives* to be held entirely in English. A few words of Portuguese from a foreigner are *taken as a compliment, but not expec*ted. It is not advisable to try out your Spanish. The Portuguese do understand it, but pride themselves on the individuality of their own language.

Punctuality is prized in Portugal, but rarely practised. As a foreigner, however, you are expected to be on time.

The Portuguese are not overly *formal*. But the Anglo-Saxon habit of quickly adopting first names can *affront some sensibilities*. Women wear skirts; men wear suits or jackets and ties.

Lunch is a vital part of doing business. It begins at 1pm or 1.30pm and *lasts a minimum of 90 minutes*, more often two hours. The city is teeming with good restaurants, but a few are especially favoured for business meetings. They include the Veranda at the *Hotel Ritz, Gambrinus, Hotel da Lapa*, Casa da Comida and Chester. The latter attests to the penchant of Lisbon businessmen for traditional British styles, from oak-panelled rooms to tweed jackets. The Portuguese do not take a siesta and dinner starts no later than 9pm.

Breakfast is a non-event, and it is unwise to organise business meetings around it.

The most frequent business journey out of Lisbon is to the northern city of Oporto. The aircraft is faster and more reliable than the train. Portugália, a small private airline, tends to *be more efficient on this route than* the national carrier, TAP-Air Portugal.

On a free day, visit the romantic palaces of Sintra or the rolling plains of the Alentejo.

Lisbon is this year's European Capital of Culture, making it a fertile city *for night life. The medieval Bairro* Alto is a lively district of Fado music houses, boxing clubs, boutiques, bars, *restaurants*, discotheques and bordellos. Over the past three years, the clubs along the Avenida 24 de Julho, beside the Tagus, have become the most fashionable. The action goes on until dawn. *No one has* yet worked out when the young professionals who dance the night away there actu*ally sleep*.

Both sides of car hire in Geneva

By Paul Abrahams

Geneva's *Cointrin airport* is truly international. A small escalator tucked on the left just before Swiss passport control can whisk you to the airport's little-known French side.

The canny business executive can take advantage of this by hiring a car on the French side for far less than in Switzerland. But, as in all things, there are problems.

The theory is simple. Last month, *Hertz's Europe on* Wheels was offering prices of £196 for an eight-day hire of a *Peugeot 106 on the French* side, compared with £247 for a vehicle of the same class in Switzerland.

Renting in France does take a little effort. *You have to pass* through Swiss immigration, pick up your luggage, nip back past passport control, take the escalator, walk past the French authorities and then down to the car hire desks. Instructions *are provided on how to take* the short road corridor to France and then back into Switzerland. The whole process takes about 20 minutes.

One irritant is that Hertz's French cars do not have Swiss motorway tax disks. I recently got lost on the French side of the border and ended up on a Swiss motorway. I was then promptly forced by a humourless bureaucrat to acquire a SFr30 (£14.60) disk in order to drive less than 15km. The fact the disk lasted a year was little compensation, given the car would be handed back to Hertz 20 minutes *later*.

Travellers need to check the rates on each side of the airport *from month to month*. The latest figures offered by Hertz on its Europe on Wheels scheme is £192 for France and £210 in Switzerland. But this excludes the Swiss 8 per cent airport tax.

Avis cuts expat rates

Avis, the car hire company, is offering low car rental rates for expatriate Britons returning to the UK for holiday or business trips.

Under the year-round offer, expatriates will get special rates when they hire a car for seven days or more. Examples of rates – inclusive of unlim*ited mileage, legal liability* insurance, collision damage insurance, theft protection and value added tax – include: £149.50 a week for a Group A (small) car; £175 a week for Group B (mid-sized manual 1.4L); and £349.50 for Group I (large manual 2.0L).

Reservations are required 48 hours in advance and drivers must be at least 23 years old.

ARCHITECTURE

Let's start blowing things up

Colin Amery backs John Gummer's move on the man-made environment

John Gummer, the UK *environment secretary*, last week launched a debate on how Britain's man-made environment can be improved. His speech to the Royal Institute of Chartered Surveyors was accompanied by a discussion document, in which he promise to demolish his own department's hideous three-towered, 1960s concrete office building in Marsham Street in Westminster.

Is this the outward and physical sign of an inner conver*sion away from the horrors of* modernism to the values of civilised architecture? Is Mr Gummer a latter day Pugin? We know he has converted to cath*olicism, but is he also poised to* be as passionate and polemical as Pugin in the pursuit of quality?

It is worth looking hard at *the document* because it bears the marks of the minister's own hand and, if that same hand succeeds in demolishing the 1960s horrors of Marsham Street, we have to take the minister seriously.

In his preface to the consultation document he rightly says that architecture is the *only art form* that is inescapable. He also points out that it is not architecture alone that shapes our world but other important factors like air quality, noise, roads, open spaces, street furniture, trees and walls. But it is architecture *and design that creates many* of the visual boundaries of our world and there is a responsibility on all who build to improve the quality of that world.

There is a strong moral tone in much of what is written in this document and it has a note of the new political correctness about it. The key words are "quality" and "sustainability" – both of them subjective and both of them *hard to define* and achieve.

The miracle is to see any minister using these words at *all, and Mr Gummer uses* them with the pleasurable anticipation. He always reminds me of "The Water Babies". *His philosophy is*, "do as you would be done by". This minister eats the beef to prove there is no such thing as mad cow disease. This minister will demolish his own offices to encourage others to do the same.

There are key points in this document which are hard to resist. The idea of sustainable mixed development is not just jargon – it does make sense to provide *for local needs locally* and to encourage a sense of local community by putting houses near jobs and making use of new technology to encourage home working and less *time wasting travelling*.

The recent rail strikes in the UK have only helped to *encourage people to find* ways of working at home and have obviously had no effect on *communication by fax or* modem. It is no longer necessary to move people about so much, nor to build giant offices full of commuters.

Mr Gummer is keen on revitalising town centres, although I notice he says nothing about excessive rents or the swingeing business rate. Small shops simply cannot afford to be in town centres – even in areas of central London there are hundreds of empty of shops. "Nurturing vitality" is a much more subtle and complex process than Mr Gummer seems to realise. Why does his document appear to encourage *more suburban development* by its admission that it is hard to raise the quality of inner-city housing to the level of comfort of the suburbs? Planning, lack of traffic control, high *rating and conservation* rules still make it too difficult to build enough good inner-city houses.

New urban villages – a charming idea – have a long way to go *before they are* much more than a pipe dream. In fact, there are plenty of older urban villages in existence already – they need the help and support of government improvement *grants. If* this government under Margaret Thatcher had not fallen in love with the *illusion* of London Docklands, London's infrastructure would not have suffered such a terrible decline and money would have been available to help communities in all the inner cities.

The new urban regeneration agency, known as English Partnerships, has been given a responsibility to promote high *standards of development* and diminish the bureaucracy of planning. But does it really have any teeth?

The object of the document is to encourage discussion about good design and it is an opportunity for FT readers to take part in the debate. Send for a copy of, "Quality in Town and Country" from the Depart*ment of the Environment*, Room C13/10a, 2, Marsham Street, London, SW1P 3EB, and complete the response form. Filling in the form and sug*gesting ideas for the minister* to think about is this year's holiday task. You have until September 30 to reply.

As a brief guide to help both *responders and Mr Gummer*, why not add a few suggestions to his demolition list. Why stop at the Department of the Environment? The tin sheds that litter the edges of almost every town to promote the worst aspects of DIY should all go. In the *capital, that parody* of an art gallery, the Hayward Gallery on the South Bank, should be blown up as should the Hilton Hotel, the Knightsbridge Barracks, the Home Office in Queen Anne's Gate and all other hotels and excrescences on the skyline that ruin the Royal Parks. They should all be selectively exploded. A particularly offensive example is the Royal Garden Hotel that blights the entrance to Kensington Palace. Most of Victoria Street should go and I suppose there is no hope of abandoning that pointless erection Canary Wharf and letting it become a picturesque ruin? *As part of my own initiative* to encourage quality in town and country, I am shortly setting *up a school of creative vandalism* – Mr Gummer is my first pupil.

WORKING LIFE/SPORT

DRIVING

Top cars to hire for that special occasion

For those special hire car occasions in the UK, you have to admit that a Ford Escort will not really do. Weddings, birthdays, self-indulgent weeks off – these demand something a little more demonstrative than the average small family hatchback that is meat and drink to the usual car hire firm. Having said that, of course, Hertz are running a special offer of a Ford Escort cabriolet – not a car to be sneezed at in these summer months – for £99 per day, inclusive. You must, however, be at least 30; and the offer closes at the end of September. To be frank, it's a start, but only a start – especially when you consider the alternatives.

Wykehams of South Kensington, for instance, will hire you something altogether more adventurous: a Morgan Plus 4, for only £496.37 per week, insurance not included. And if this true Brit fails to excite you, they also do Alfa Romeo Spyders at the same price.

At the other end of the scale, Alan Day Car Rental, based in Swiss Cottage, will let you have an awesome Mercedes S300 for a mere £1280 per week (plus £19 per day insurance supplement), or the even more desirable SL280 sports model for £1575 per week. And for the determinedly eccentric, a Land Rover Defender TDi can be borrowed from 4x4 Motors of Bromsgrove, for only £320 per week, if you absolutely must drive up a corrie or negotiate a peat bog.

If you have a full motorcycle licence, of course, then the place to go is Scootabout, on the Albert Embankment. Its list of rentable motorcycles is too long to explore in detail but, if you need to look like Mickey Rourke for a few days and have no regular machine, they can hire you anything from a Kawasaki GT550 for £150 per week, up to a Kawasaki GtR 1000 (with appropriately mind-blowing performance) for only £280 per week.

If the truth be told, however, the doyen of exotic car hire must be Modena Car Rentals of Birmingham. Its list of rentables includes everything from a BMW 7-series, to a Ferrari Testarossa and a Bentley Turbo. In between lie such startling pieces of machinery as a TVR Griffith, a Honda NSX and a Porsche 911 Carrera.

The prices naturally reflect the rarity of these vehicles, and while the cheapest weekly rate is £50 (for a Mitsubishi Shogun, of all things), the top rate (for the Testarossa) is £3783.50, inclusive.

Like all the other car hire firms, of course, Modena will quote you a daily rate, but at just under £600 for the Testarossa, this may be something of a false economy. Given that it costs considerably more for a day than a Morgan for an entire week, you can see that the Testarossa is not to be undertaken lightly. If, on the other hand, it gives your bank manager a seizure when he catches you in it, it can only be money well spent.

Hertz Rent a Car, 081 679 1799; Wykehams, 071 589 6894; Alan Day Car Rental, 071 435 1133; 4x4 Motors, 0527 576777; Scootabout, 071 582 0055; Modena Performance Car Rentals, 021 773 0470

Charles Jennings

HEALTH

Every little beat of your heart

If employees are exposed to asbestos, noise pollution or bad office conditions at work, companies are expected to take responsibility for resulting health problems. But even if a company removes all risks from the workplace that is no guarantee it will suddenly have a healthy staff.

As far back as 1990, National Power, of the UK, decided to launch "Get Healthy Stay Fit", a voluntary health screening programme for its employees.

It is one of several companies, including Marks and Spencer, Zeneca and Cable & Wireless, that provide voluntary testing for health risks. Such programmes are designed not only to identify specific health problems ,but to alert employees to future risks as a result of practices such as smoking, drinking alcohol and eating certain kinds of foods.

At National Power, the management and the occupational health department decided a screening programme could provide potential financial benefits to the group. They hoped to reduce the incidence of premature retirement or long-term absence from work, and boost company morale by projecting a "caring company" philosophy.

The programme is open to all employees, who are seen by occupational health nurses based at each company site. Before a screening appointment, an employee is sent an extensive lifestyle questionnaire.

At the appointment, nurses review the questionnaire and offer advice on how an individual might improve his or her health habits.

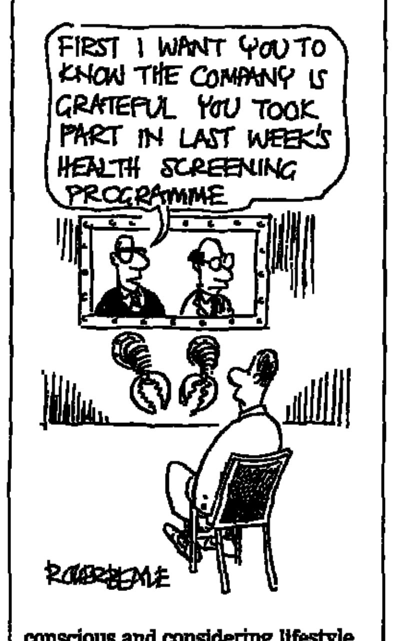
During the check-up the nurses analyse 14 biochemical indices pinpointing the likes of cholesterol and glucose levels and bone disorders. They also test the patient's vision, lungs , hearing and blood pressure.

If the employee agrees, the results are sent to the patient's GP. Nurses are advised to send any employees who test positive for diabetes, high blood pressure or visual defects to their GPs for immediate consultation. But not every abnormality detected will be referred to the GP.

"We are trying to make a judgment as to whether someone is sick or not," says Dr John McCaul, chief medical officer at National Power. "We do not want to pass people willy-nilly on to the GP if they are healthy."

Each year McCaul compiles the results of all screenings completed within the company and distributes the statistics to executives and site managers. No employee can be identified in the statistics.

But the effectiveness of a screening programme – the actual improvement in the health of the employees – is difficult to measure, because employees who volunteer for screening may be health



conscious and considering lifestyle changes anyway, while those who stay away may have the most severe problems.

"If you are going to try to get people to improve their lifestyle, you are probably going to have do something more than just send out a general invitation for people to come in and find out about their health," says Dr Anne Cockcroft, director of occupational health at the Royal Free Hospital. "In order to provide screening programmes in the best possible way we need to think about how we target them."

Motoko Rich

EATING OUT

At the Louvre

If there is one thing Paris probably does not need it is another café: but there is always room for somewhere special such as Café Marly, the new brasserie in the heart of the Louvre Museum.

Café Marly is the brainchild of Gilbert Costes, whose Philippe Starck-designed Café Costes in Les Halles was one of the hottest places in Paris during the mid-1980s but has since deteriorated into a tourist trap. His new venture boasts one of the best locations in the city: buried in the Richelieu wing, the part of the Louvre that once housed the French finance ministry but reopened last autumn as a spectacular new extension to the museum.

Through a window looking into Cour Marly, the diners in the Marly restaurant have a stunning view of the sculpture liberated from the royal palace gardens by the 1789 revolutionaries. The Cour Marly is one of the palatial glazed courtyards created by IM Pei, the Chinese-American architect responsible for the Louvre renovation scheme.

The brasserie windows overlook Pei's Louvre Pyramid, while the 18th century interior has been restyled in an uncompromisingly contemporary combination of black, red and gold.

The best views, however, are from the terrace which looks out over the whole Cour Napoléon, from the Fritz Langesque tourists lining up by the Pyramid to the Tuileries Gardens.

As for the menu, the Marly offers the standard, if unspectacular fare dished up at other fashionable Paris brasseries, such as Café de Flore or Brasserie Lipp on Boulevard Saint-Germain the other side of the Seine.

The price of the food is surprisingly reasonable with lunch for two totting up to around FFr400 ($76).

But drinks on the terrace are as absurdly expensive as anywhere else in Paris – even if the Marly is, of course, the only place to throw in a bird's eye view of the Pyramid for free.

Café Marly, Cour Napoléon, 75001 Paris. Tel: (331) 4926 0660

Alice Rawsthorn

READING MATTER

Paperback writers

So you're off on holiday this week and you haven't had a moment to think about the paperbacks you'll need for the beach. And, truth to tell, for most of the year you don't have much time for fiction.

Nothing too ambitious, then. No, not Tolstoy again this year, and you'll resist the present craze for George Eliot after the success of *Middlemarch* on TV. Nor can you face the new young Tolstoy of India, Vikram Seth, whose *A Suitable Boy* at 1,474 pages would fill at least a fortnight (*Phoenix* £8.99).

Something more like fun? One solution would be John le Carré's *The Night Manager* (*Coronet* £5.99), the spy-master's latest novel and very good indeed with its globe-trotting tale of the hotelier who sets out to track down "the worst man in the world", an international arms-dealing tycoon straight out of the pages of this newspaper.

If you are a Wilbur Smith fan, in company with countless millions, think twice before you grab the latest *River God* (*Pan* £5.99) – not because it's no good, but because it is a total departure from his usual territory of African bush and sundowners. This is Ancient Egypt, fun and games among the Pharoahs. The switch may not be as surprising as it sounds when you remember that Rider Haggard was an Egyptologist in his spare time.

The last-but-one Barbara Vine is also at the airport – *Asta's Book* (Penguin £4.99). Vine is of course another name for Ruth Rendell, and is a leisurely saga based on a Scandinavian woman's diary throughout the century. It is rather slow and fairly long, which may not matter by the pool.

Last year's Booker Prize winner, *Paddy Clark Ha Ha Ha*, is now out in paperback (*Minerva* £5.99). A small boy in Dublin, wonderfully done – but it won't last you more than a couple of days.

So try Bill Clinton's favourite, Walter Mosley. The President is right on this one: Mosley is a splendid addition to the American private eye tradition established for all time by Raymond Chandler. Mosley's hero is Easy Rawlins, an amateur black gumshoe returned from the Second War to the Los Angeles ghetto. So far there have been three books: *Devil in a Blue Dress*, *A Red Death* and *White Butterfly* (available from Serpent's Tail, Pan or both) Utterly distinctive; well worth trying.

And if you've finished them all by Tuesday week? You could move back into serious literature – *Picador* have brought out as paperback batch of the modern "Westerns" of Cormac McCarthy, who scored in this country with *All The Pretty Horses*. But don't confuse him with Zane Grey - the comparison in this case would be with William Faulkner.

Does that sound a bit alarming? Then all praise to Penguin which has just issued *The Adventures of Dickson McCunn* by John Buchan (£8.99), a sequence 70-years-old and so much less known than the ubiquitous adventures of Richard Hannay. Here are the Gorbals Die-Hards born again, with their patron, the retired and romantic Glaswegian grocer: *Huntingtower*, *Castle Gay* and *The House of the Four Winds* in one volume. Pure bliss! The perfect escape from the office, and from 1994.

J D F Jones

STYLE

Wherever I lay my hat

The problem with men's hats, is that it's hard to wear them without seeming ironical. Hats, like bow-ties and mustard-coloured waistcoats, aren't so much clothes as items from the dressing-up cupboard; things which make a self-referential statement, rather than just keep the sun off your head.

Which is probably why the classic Panama and the baseball cap are the two most popular hats around at present: you can just about get away with one or the other, without having to explain your motives.

As is usually the case with hats, Lock's of St. James has some of the nicest items. Its broad-brimmed planter's Panama costs £67: this is both functional and stylish and a change from the traditional folding Panama with its ridge (or optimo) crown and narrower brim.

Christy's of London also make a very decent selection of Panamas and Panama variations, many of which are can be found at Selfridges and Austin Reed, at prices between £30 and £60.

But what if you want to break free from the masses and make that big statement? What if you want to look larger than life? Well, back at Austin Reed, there is a very fetching Burma Bush hat (made by Austin Reed itself), in muddy olive felt and with a kind of fisherman's fly feather tucked into the band. It looks indestructible and it costs £79.

Even better, perhaps, is the R.M. Williams Australian Outback clothing store, a little way up Regent's Street from Austin Reed. It has a terrific range of tough-guy, outdoors headgear, including the Pastoralist (which looks a bit like Lester Young's pork pie hat, but is none the worse for that) and the splendid Cattleman, which is built on an heroic scale and should outlast its owner. Both cost £65.

Or, back at Lock's, there is something for the truly self-dramatising: a vast white sunshade job, wide-brimmed and with a coral-coloured band, made by Borsalino of Italy. Admittedly, it has more than a whiff of Cosa Nostra about it, but it is a beautiful object – and the fact that Lock's is prepared to stock it is a guarantee of its quality. Sheer extravagance, for £97.

Charles Jennings

FINANCE

Why AVCs should be a low priority for a number of senior executives

Pensions are one of the most tax-efficient ways of saving, which is why many employees who have not made full contributions to their pension scheme are encouraged to top them up.

The two main ways of doing so are with additional voluntary contributions (AVCS), which form part of the main company scheme and free-standing AVCS (FSAVCs), sold independently by life offices and some unit trust groups.

AVCS and FSAVCs are the most tax-efficient method of increasing your company pension, because they attract full tax relief on contributions. The fund also enjoys tax-free growth. However, John Shuttleworth, an actuary at accountant Coopers & Lybrand, says that for senior executives earning over about £100,000 a year who joined their company scheme before March 17 1987, AVCs should be low on their list of choices.

Their AVCs either buy a taxed pension or allow the executive to take cash from his AVCs, so avoiding commuting – taking cash from – his company pension. But either way, the tax-free lump sum is not increased. Directly or indirectly, the AVCs buy a taxed pension. So the advantages of AVCs for these executives, are exemption from income and capital gains tax on the underlying investments and any fall in the executive's marginal rate of tax in retirement.

However, Shuttleworth says that the risk of tax rates increasing before the executive comes to take his pension is too high to be worth taking. If higher-rate tax rises from the present 40 per cent to 60 per cent, the executive will have received tax relief at 40 per cent but will be taxed on the pension at 60 per cent.

"In the present low tax environment, it is better to take cash now rather than to be in a cash deferral plan such as an AVC. For many pre-March 17, 1987 executives, the potential gain relative to other investments in paying AVCs is low, but the downside can be high. Other investments which do not carry the risks of a potentially poor return as well as giving greater accessibility in the case of a need for funds, can give a return as good as that with AVCs." These include Tax Exempt Special Savings Accounts, Personal Equity Plans and some National Savings products. Other investment, such as unit trusts also compare well.

AVCs still remain a potentially good deal for two groups: those below senior management level who are higher-rate taxpayers but expect to retire as lower-rate taxpayers. They are receiving tax relief on contributions at 40 per cent but their pension will be taxed at the lower rate (assuming that any future increase in basic rate tax is below 40 per cent).

Most employees who joined their company scheme after March 16, 1987 should also benefit, says Shuttleworth, since as a rule of thumb, about a quarter of each AVC emerges as tax-free cash, on which there is a genuine tax saving of up to 40 per cent.

Scheherazade Daneshkhu

SPORT: LAURA THOMPSON

Pavarotti in the ballpark

So the two glamour teams finally got it together, serenaded by the three heavenly voices. This was as it should be. This was the perfect conjunction – the one, perhaps, that was dreamed of on the day, more than four years ago, when a prophetic soul at the BBC decided that nothing less than Luciano Pavarotti singing Nessun Dorma was good enough for the World Cup.

How ridiculous it seemed, at the beginning of Italia '90, that such a voice should be swelling our emotions to such a pitch in preparation for a qualifying match between Ireland and Egypt. What was the BBC playing at? Had it never heard of INXS? Who was this rogue romantic, this complicated personality who knew about football yet knew about opera, and who believed that Puccini could provide an anthem for the terraces?

Whoever they were, they took a bold and beautiful decision. They may have only taken it because the World Cup was being held in Italy. Whatever the reason, the decision expressed a belief that football could be something majestic and, unlikely as that then seemed, football became something majestic: it lived up to its signature tune. By the end of Italia '90, Nessun Dorma was no longer inappropriate. It was the only accompaniment possible.

Even when the football let the music down – as it did, inevitably, and never more so than in the nasty little final between Germany and Argentina – that did not matter. The soft, liquid sensations aroused by the music had massaged and oiled the uptight emotions of the football fan, and reminded him of the greater gratifications that the game can give. Such as those that I felt on the evening before England played in the World Cup semi-final, when I sat in a pub and felt an unspoken kinship with every person there; if the sound of Nessun Dorma had filled the bar I think we might all have dissolved together in tears.

The music revealed an image of the game beyond the narrow, banal thing that English football so often is. This image had been forgotten during the dour, violent years of Heysel and Hillsborough, and was lost again during the tense, farcical years of Graham Taylor. Now, however, it can be found far more easily, because it has been identified forever with the sound of a heavenly voice.

But the opera factor did not merely reveal an image of football. It helped to change its image. If, in the summer of 1990, Gary Lineker and Paul Gascoigne brought the game to a wider audience, so too did Pavarotti and Puccini: they took football into the world beyond itself, a place where it had not been for some time.

So many people then thought of football as something that could never be important to them, only to people as unlike them as possible – obsessives, hooligans, sickos, men. But the fact that this music, something which was part of their world, could be proudly heralding the way into the world of football, helped to sanction their emotional engagement with the World Cup. Who is to say that they would have wept with Paul Gascoigne if Pavarotti had not already cleared a path through their tear ducts?

These people have not all stayed with football, but however brief their love affair with the game, it has had its effect. Who, just over four years ago, would have imagined that intellectuals would want to deconstruct the image of a daft, over-hyped Geordie? Or that guests at upmarket dinner parties would desribe the eruption of Ian Wright onto a football pitch with the verve that they had previously used to conjure the image of MacBeth upon an RSC stage? Or that bright young women would be proclaiming their passion for Ryan Giggs across the pages of quality newspapers?

This didn't all happen because Pavarotti sang. But the moment, sometime during Italia '90, when Nessun Dorma ceased to sound out of place and began to sound magnificently right, was, I believe, the moment that it all became possible.

And yet, for all that, the image of football as something splendid, stylish and emotionally unifying remains a dream. The dream took on life in 1966, it came to half-life in 1990, and last season Manchester United gave it some life again: but still the English seem never quite to believe in it. For all their love of the game, they seem to think of football as a source of perverse, not pure, pleasure.

They are passionately defensive about it, but in truth they have a low opinion of it, low expectations from it. Is that why England don't play like Italy or Brazil?

In those countries, nobody would think it remarkable that clever types, smart types, female types, have decided to fall in love with football. The only thing that would surprise them was that such people had not done so earlier; for in Italy and Brazil, everybody loves football, and this is because they see their game differently.

The English dream of football is their reality. It makes no difference how badly their teams play; nothing can make the game anything less than naturally majestic. The faces of the Italian and Brazilian fans reflect the fact that football is part of the whole of their lives. Compared with the strained, inhibited expression of the English fan, they look full of emotion, free with it, just as they would be if they were hearing Nessun Dorma. And they do hear it, every time they see a football passed around the pitch: the two glamour teams and the three heavenly voices inhabit the same world.

Reuter

Encore Nessun Dorma: (left to right) Domingo, Carreras, Mahta and Pavarotti at Dodger Stadium this weekend

PEOPLE

Checking in, and not checking out

Robert Peel, the head of Britain's second largest hotel chain, tells **Katharine Campbell** why he has stuck with it

In what line of business would a suave and successful Old Etonian be labelled "a rough diamond" and "a Gerald Ratner who can count"? The British hotel business, apparently, where the four star hoteliers speak only to the five star hoteliers, and the five star hoteliers speak only to God.

Robert Peel, chief executive of Mount Charlotte Investments, has no patience with such nonsense. Hating "pretentiousness and bullshit", this chain-smoking, workaholic iconoclast, who tucks himself away most of the week in Leeds, and relaxes equally happily at the Savoy and Tramps, is a bit of a puzzle to his stuffier rivals.

With a portfolio of 112 hotels ranging from the no star to the five star, Mount Charlotte Thistle is Britain's second largest chain after Forte. Yet it is hardly a household name, not least because Peel, 47, sees no need to court publicity. "You get a fair hearing if no-one knows you."

Peel is likely to be forced into the news rather more in the next few years. The group has just embarked on a sweeping modernisation programme, concentrating on the four star business market; its boss is confident that finances will improve as Britain emerges from recession. Rumours of a stock market flotation will consequently never be far away.

An intuitive hotel-keeper who betrays a passion for service while brandishing a sharp knife in the direction of the most modest outlay, Peel is an eccentric existing outside both the hotel establishment and the City – his pukka upbringing notwithstanding.

It was at home that he first learned to love the business. Early childhood was spent in Egypt, but the family lost its cotton fortune in the aftermath of Suez and his father returned to London, turning his hand variously to the restaurant trade, pig farming and antiques.

After Eton, Peel headed for Paris, and a series of menial jobs in grand hotels. Back in London, his formative apprenticeship was at the Hyde Park Hotel, acquired in 1968, while he was there, by Trust Houses (which merged with Forte in 1970).

Passing through the Grosvenor House Hotel as conference and banqueting manager, and the old Quaglinos restaurant as general manager, Peel was poised to go to Johannesburg for THF when his elder brother made a suggestion.

Then at stockbrokers Fielding Newson-Smith, Charles Peel was acting for a group of institutions acquiring Mount Charlotte Investments from the rubble of the Slater Walker empire. Originally established to mine gold in Rhodesia, the company was by 1976 a curious collection of seaside hotels, pubs and nightclubs in search of a manager. Peel liked the idea, and swapped his luxury hotels for the "serious shock" of a headquarters in Leeds and some months living in a group-owned old people's home.

From there he embarked on just over a decade of helter-skelter expansion, turning a loss of around £1m to profits of £38.8m by 1989. Then he made what many would claim was his biggest mistake: he bought Thistle Hotels from Scottish & Newcastle.

The attraction was a branded chain to bolt on to the mishmash of properties already accumulated. "I effectively lost my company because of that deal," Peel acknowledges, but reminds me that he was under "enormous pressure" from his banks and shareholders to make a move because they thought his gearing too low.

"With the benefit of hindsight, I bought at the top of the market, yes," he says. A year later, however, up to his ears in debt, Peel was forced to sell out to Brierley Investments for just £644m; the New Zealanders later sold on 30 per cent to the Singaporean government.

Did he consider leaving? "It's the same as if you consider leaving your family; it's a big decision," muses Peel, who has never married.

As it happens, he gets on famously with Paul Collins, Brierley's chief executive, and feels a seat on the main board in Wellington has expanded his horizons. Reaching for the positive spin on having a boss, he says New Zealand has proved an important new market, too.

But the Gulf War and deep recession put a severe strain on the relationship. Even now the group's financial performance is far from impressive. Peel dismisses recently released 1993 post-tax profits of £10.4m, on sales of £214m, as "peanuts" compared with what he thinks the group is capable.

That is why he denies persistent rumours that Mount Charlotte is ripe for flotation. Collins adds, in cricketing style: "What we need is runs on the board. Any price at which we might float now would severely undervalue future prospects." It also needs to attend to gearing; even in last year's favourable rate environment, 88 per cent of trading profits were absorbed in interest payments.

Financial travails delayed until early last year plans to upgrade many of the Mount Charlotte properties into Thistles, but by 1996, the aim is to have almost two thirds of the hotels with that branding.

Even Peel realised he would need to make a bit of noise about this "repositioning", so he hired the well-regarded Peter Bates, previously at the Savoy, as his new sales and marketing director. "He needed more people who could stand up to him," remarks one observer. Bates, who arrived

last November, says there are regular slanging matches.

Yet the entrepreneurial gifts that carried him through the 1980s will not be enough to take the group much further. With its 14,300 rooms, Mount Charlotte needs more structured management. Instead, Peel still carries most of the company around in his head, and, aside from his senior operations director Norbert Petersen, there have been very few he has really trusted.

He will still get involved in the tiniest detail. "I like to know this pipe goes from there to there. I'm annoying like that," he agrees. He has even taken to tape-recording staff as they negotiate discounts so that he can improve their technique.

But there are limits even to his energy, and his extraordinary involvement has its impractical side. "He complains that he can't keep up with me. I tell him, you don't have to keep up," Bates observes. Peel has, of course, heard the criticism many times. "I see margins go with every act of delegation. If I can do it quicker, I'd rather do it," he says simply.

One can see he frets about his much-prized cost-controlling abilities being compromised by building an infrastructure. In his personal life, he "never has a clue" what he spends, but at Mount Charlotte he signs every cheque over £300, and worries about such things as whether he can catch his own water on those acres of roofing. Necessary though he knows it is, he winces when he mentions that the salesforce has doubled from 40 to 80 in the past six months.

As and when Thistle Hotels plc – as it is likely to be renamed in the next year or two – comes to the market, investors will look for greater management depth, and strategic brain. They will ask questions both about the debt and Peel's unsinkable optimism that business spending will bounce back more or less to pre-recession levels.

And, while they will applaud the fact that Peel recognises he lacks the infrastructure to expand into European hotels, they will point out that that is where his competitors think the growth will come from.

He will not pass comment on last year's rumour that Rocco Forte offered him the position of chief executive at his former stable. But he would presumably just hate having to knuckle under in a huge organisation of that kind. That is why the man who at 30 wanted to run the biggest hotel chain in the world is not the next Charles Forte.

NAMES IN THE NEWS

Ear to the ground at CS First Boston

It has been clear for some time that Allen Wheat was not going to let himself become another casualty of CS First Boston's notorious in-fighting, writes Richard Waters. Last year, this newspaper was rash enough to question whether Wheat had been sidelined in the latest upheaval at the Swiss-owned investment bank; interpreting the politics inside CS First Boston has always been like Kremlin-watching in the days of the Soviet empire. Wheat's blunt response was to point out who makes all the money in the bank.

These days, it looks like Wheat's staying- (and earning-) power are carrying him closer to the top. In May, he was given a seat on the board of CS Holdings, the investment bank's ultimate parent. At the same time, John Hennessy, CS First Boston's chairman, relinquished his board seat.

No one in the securities industry questions Wheat's professional skills. He was largely responsible for building Bankers Trust's derivatives business before jumping ship in 1990. Since then, he has created another leading derivatives firm in CS Financial Products, which is half-owned by CS First Boston and Credit Suisse, another part of the group. And last year he moved from London to New York (the new seat of power at the investment bank, which used to be run as separate US and European fiefdoms) as president and ceo.

Modern-day Kremlin watchers should beware of writing off Hennessy too soon, though. Last year, he mounted an amazing internal coup to take full control of CS First Boston. Casualties along the way included Archibald Cox (his former number two in New York) and Hans-Jorg Rudloff (the bank's former London head.)

CS First Boston warns against reading anything into the reshuffle of board seats at the holding company. The presidents of each of the group's operating companies – rather than the chairmen – are represented on the board, it points out. So when Hennessy handed over his president's title to Wheat, it was only natural that the new man get the board seat as well. Perhaps. But experience shows few things at the bank are ever as simple.

Schacht fulfils his long-term strategy

The decision last week by Henry Schacht to hand over the reigns of Cummins Engine to his long-time friend and colleague James Henderson is just another example of the vision that has characterised Schacht's 21-year term as ceo, writes Laurie Morse.

Once described as a "prairie patrician" because of his Harvard MBA-style of management at the Indiana company, Schacht opted for long-term solutions as he battled against foreign competition, loss of domestic market share, and a hostile takeover bid (from Hanson) during the 1980s.

His strategy, which included a costly investment in engines for mid-size and smaller trucks and in technology that allowed Cummins engines to exceed US clean air standards for automotive emissions, resulted in long years of losses.

However, the long-term investments began to pay off in 1991 and last year Cummins earned $177.1m on sales of $4.25bn. The company has a much more diversified product base than it had a decade ago, has formed strategic international alliances, and is profiting from a surge in truck orders as the US economy recovers. What better time, said Schacht, than to take care of a most important duty – an orderly leadership transition. "I started talking with our board in 1992. We realised that in 1994 both Jim and I would be 60, and that we needed to avoid a double transition."

Henderson, who has managed side-by-side as chief operating officer with Schacht for two decades, will take over as Cummins ceo. He intends to retire at 65, so has 5 years to put his mark on the company. Schacht intends to continue in his post as chairman, and Theodore "Tim" Solso, who is 47, will become chief operating officer.

In the meantime, Schacht has no plans to slow down. "I will be pursuing full-time the strategic alliances we've been building overseas," he says.

Fiat snaps up Renault's Caperan

Fiat Auto has wooed Loic Caperan, formerly Renault's commercial director for France, to Turin, where he will become the Italian carmaker's overall commercial director from January 1, writes Andrew Hill.

This could be a good time to join Fiat Auto; it has just launched the Punto, to wide acclaim, and has plans to produce 18 new models by 1998. The Fiat group, after heavy losses in 1993, expects to break even in 1994.

Caperan's decision to leave Renault was announced in May, after nearly 25 years there. He had spent five years as commercial director for France, and was reported to be frustrated that Renault could not make room for him to develop within the company. During his career with Renault, he worked in Germany, Austria and for a time was director-general of Renault UK.

In the highly competitive automotive sector, the move is certainly not as dramatic as the now notorious job-switch of Jose Ignacio Lopez de Arriortua, the former General Motors director who joined Volkswagen of Germany.

But analysts have interpreted Caperan's appointment as a further sign of the internationalisation of Fiat, which has seen its share of the domestic market decline over the last decade and is seeking to increase its share abroad.

At Fiat, Caperan, 51, will initially work alongside the current commercial director, Guglielmo Chiarle, who is to move on within the Fiat group at the end of the year. Caperan will then take on full responsibility for the Fiat, Lancia and Alfa Romeo marques around the world.

MEDIA FUTURES

WPP backs US study

By Raymond Snoddy

Martin Sorrell's WPP has joined the million dollar Electronic Assess Study in the US – one of the most significant attempts so far to find out what the electronic highway is actually going to be used for.

WPP, the world's largest advertising group, whose agencies include Ogilvy & Mather and J Walter Thompson, is the only marketing communications company to sponsor the study, which should continue beyond 1994.

"We believe our stock in trade is a deep understanding of the consumer. And our exclusive access to the findings of the study – exclusive, that is, in our line of work – ought to further sharpen our focus on consumers." Sorrell said last week.

The study, other sponsors of which include US West, Bell South, British Telecommunications, Fidelity Investments and the US Postal Service, will look at both supply and demand.

Seventy companies will be asked about the services they would like to supply down an electronic highway. Researchers will also talk at length with 1,400 households to learn everything they can about what people are likely to want, and how much they will pay for it. One part of the research will be specifically about advertising.

Sorrell believes that whatever form the information superhighway takes, interactive marketing – any back-and-forth communication between a buyer and a seller – will be in there somewhere.

The WPP chief executive believes that, no matter how, or at what speed, the technology develops, consumers will in the end be sitting in front of computers, television sets or videophones ordering, receiving and paying for a wide range of information, entertainment and other services.

Fujitsu lines up trials across a range of services

By Michiyo Nakamoto in Tokyo

Fujitsu, the computer and telecommunications manufacturer, plans to start trials of what it claims will be Japan's first comprehensive multimedia services.

In December, it will launch trial services such as near video-on-demand, games and karaoke software delivery, local community information services and telephone, facsimile and PC communications services. It will do so in co-operation with five Japanese CATV companies in which it owns equity stakes.

The aim of the trials is to evaluate what kinds of services consumers want, how much they would be willing to pay for such services and how such services can be made to become viable businesses, says Fujitsu.

While the company has recently been putting emphasis on its service businesses, the latest venture takes it into new territory.

Fujitsu, which has one of the most well-defined strategies for multimedia among Japanese electronics manufacturers, says it hopes to use the trial to gain experience in the management of urban CATV companies.

The increased involvement in cable TV management and in rolling out multimedia services through cable TV would also support the hardware business of the company. Fujitsu is a significant manufacturer of much of the equipment that goes into providing multimedia services, from central computers that control the systems, to transmission equipment and PCs, which could act as the home terminals.

However, if the trials lead to a fully-fledged multimedia service, it could put Fujitsu in direct competition with NTT, the telecommunications company which has scheduled its own multimedia trials and which is a major customer of Fujitsu.

For the trial services, Fujitsu plans to use equipment that already exists at the studios of the co-operating CATV companies, with additional equipment introduced as necessary.

The company stresses though that it plans to use the best equipment available, regardless of manufacturer.

Near video-on-demand will be provided by using several channels with staggered starting times for programs. These will be shown simultaneously across a number of channels.

Video games and other information software can be offered through repeated transmission for users to download as desired on home terminals.

The trial services will be available to up to 1,000 subscribers to cable TV during an evaluation period of between 6 months and a year. If these trials prove successful, Fujitsu says it will launch a second phase of trial services in which it will offer full video-on-demand.

NBC financial video network

By Raymond Snoddy

NBC, the US network television company, plans to launch a new desktop video services for the financial community in September. It will do so through its business television division, CNBC.

The new services will use normal terrestrial TV to deliver to personal computers news stories that might affect the financial markets.

The new services, NBC Desktop Video, will also provide on-demand video retrieval of items already broadcast, and enable subscribers to send their own multimedia information to other subscribers on the NBC network.

Trials have already begun in the US before the September launch. The service will be introduced to Europe in the fourth quarter of this year.

NBC already delivers specialist desktop information to the financial services industry, with the launch last year of Private Financial Network.

Tom Rogers, president of NBC cable and business development, says that since the launch of PFN "the need for live video coverage of market-moving events, linked with a retrieval component, has become even more important to our customers in the financial market-place."

In the UK, Reuters, the news and information group, has recently launched a service of breaking news to City terminals, although without retrieval capability so far.

Sikes sees electronic pie in the sky

By Raymond Snoddy

Alfred Sikes, former chairman of the Federal Communications Commission, last week denounced most of the talk about electronic superhighways as hype, fantasy and crystal ball gazing.

He told a Financial Times multimedia conference in London that, as a result, many companies were defying the law of gravity "by having multiples of earnings before there are any earnings, or even well conceived predictions of any."

The former FCC chairman, now president of Hearst New Media and Technology, said that as far as the eye could see television revenues would continue to be spread across broadcasting, cable, video and, in some countries, satellite delivery.

"I am also convinced that, over the long run, today's retailers will capture the bulk of home-shopping revenues, not the network providers," Sikes said.

Change would almost certainly be evolutionary and much of television would remain the same – although gradually much more would be available through the creation of advanced networks.

Sikes forecast that: "Advanced networks will increasingly come along with virtually unlimited capacity, supported by consumers-friendly search tools. The viewer will be master."

There could be thousands of new information providers, although some would never get off the ground and others would remain niche players.

He predicted that the information and programme content equivalents of companies such as Apple and Microsoft would also develop.

"I can't tell you for sure how advanced networks are going to develop or how many there will be," said Sykes, who added he thought there would be more than one.

"I do know that bandwidth (channel capacity) will be cheap and that the days of scarcity are over," he concluded.

Henkel: "IT will change the way we Europeans work."

Blue-print for IBM in Europe

Hans-Olaf Henkel outlines his view of the future to **Andrew Adonis**

The recent fortunes of IBM in Europe have ranged from mixed to dire, but Hans-Olaf Henkel, president of IBM Europe, believes that the liberalisation of telecoms networks offers a "tremendous opportunity".

Henkel was a member of the Bangemann group of industry leaders which reported to last month's Corfu EU summit on the essential steps to create an "information society" in Europe. His view of the future is black-and-white. With open networks architecture and strong telecommunications competition, Europe will forge ahead. Without them, it will languish. He takes it for granted that high tech is the key to competitive advantage.

"Information technology will change the way we Europeans work, and fast," he says. "We still have 12 telecoms markets in Europe: they are fragmented mainly for protectionist reasons – in terms of companies and standards. We have to change that."

"Governments have a key role to play, they can put Europe at the head of the information society or they can make us a follower behind the US." Pressed on the precise role of government, Henkel sees it mainly in terms of liberalising markets and harmonising standards.

Should governments set targets for connecting public sector institutions, such as schools and hospitals, to the new networks? "We did not consider that specifically," responds Henkel. They would have to be reasonable targets. The main role of government in this area is to set an example."

He is an enthusiast for teleworking, and believes it will soon change working practices radically. "The EU should use teleworking as the principal mode for its translation service. Why can't most of them work from home?"

Henkel accepts that there is a "certain amount of hype" around. "We have got to find applications. Video-on-demand will be one of the first, but it is proceeding slowly."

He is nonetheless convinced that the future lies in networks, not in disc technologies such as CD-rom. "If the telecoms networks were not so costly, CD-rom would not be attractive. From a global economic standpoint, CD-rom is an outdated means of transporting data."

What is IBM doing to hasten the information age? He cites the company's flagship project to provide "superhighway" services between Bonn and Berlin, allowing Berlin to function as Germany's capital while a large proportion of the country's bureaucrats remain in Bonn.

Other, smaller scale, projects include putting the entire Vatican library on-line, and an on-line video trial with the University of Geneva. He claims IBM is leading the industry in the adaptation of ATM technology for the next generation of hardware.

On standardisation, Henkel's recommendation is for more "user groups and consortia to develop market-oriented specifications".

"Take Internet with its 25m users. Whether you like it or not, it is a standard. It needs improving in terms of privacy and security – but let's say it is a de facto standard, and make sure it fulfils the industry's needs."

Henkel sees the UK as a model for the EU's telecoms industry. "On the Bangemann group we all felt the UK was getting ahead of the rest of the continent. The first thing is competition which will result in lower rates, and the competitors will also find the capital for the new infrastructure."

Who will provide the competitors to established telecoms operators on the continent? "It is obvious to me that utility companies are the most natural competitors in the telecoms market. They already have networks, and the rights of way needed to lay new ones," says Henkel.

For IBM, increasing PC penetration in Europe is the key. It estimates that in the US there are 34 PCs per 100 citizens, in Europe 10 per 100. "That is the key business opportunity."

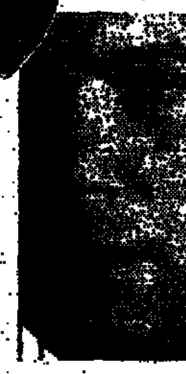
Whether IBM is best placed to exploit it is, of course, another matter. "The whole playing field is being changed. It will be increasingly difficult to separate IT from telecoms. But we are the pioneers," Henkel insists.

ARTS

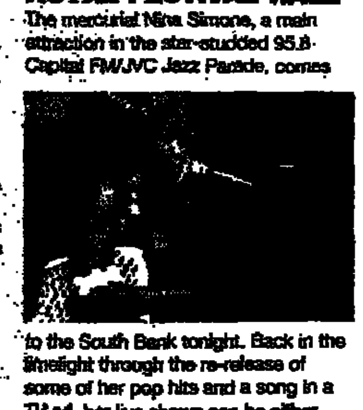
OPENINGS

STRAND THEATRE Widespread argument continues about the merit of George Bernard Shaw's plays, apart from the classic "Pygmalion". On the one hand, the complaint is that Shaw did not write enough as much as a dramatist; on the other there is Shaw's sheer vitality. Despite the controversy, several of the plays are frequently revived. "Saint Joan" returns to the West End on Thursday, previews from tomorrow. Imogen Stubbs takes the title role in a production which was premiered in May at Theatr Clwyd in Wales.

SADLER'S WELLS Barbara Cook - the original "Cunegonde" of Bernstein's "Candide" and the first Amalia of "She Loves Me" - launched a career some years ago as a concert chanteuse and deserves to be discussed alongside the leading classical singers. She so transforms certain songs from musicals and modern ballads - such as the Rodgers-Hart "Wait Till You See Him", the Schwartz-Dietz "Dancing in the Dark", and even "Nothing Could Be Finer Than to be In Carolina" - that they become wholly hers. At Sadler's Wells from Thursday.



BREGENZ FESTIVAL The festival at the Austrian corner of Lake Constance has won an enviable reputation for artistic boldness, while preserving its appeal for tourist audiences. This year's programme maintains the balance: an operatic rarity, Zandonai's "Francesca da Rimini", opens the festival on Wednesday in the indoor theatre, while a revival of David Pountney's production of "Nabucco" is the popular draw on the floating stage.



ROYAL FESTIVAL HALL The mercurial Nina Simone, a main attraction in the star-studded 95.8 Capital FM/JVC Jazz Parade, comes to the South Bank tonight. Back in the limelight through the re-release of some of her pop hits and a song in a TV ad, her live shows can be either intense or infuriating, but are always memorable. On Wednesday, reliable guitar hero, John McLaughlin invokes his electrical Free Spirits at the Festival Hall.

THE BARBICAN They look trendy and promote new fashions in music. The Kronos Quartet is among the brightest advocates of contemporary classical music and the group's three recitals at the Barbican Hall this week include UK premieres of new works by Don Byron, Peter Sculthorpe and Terry Riley. The second of them on Wednesday is devoted single-mindedly to the four quartets of Alfred Schnittke.

100 not out, or are they?

Richard Fairman on the start of the Promenade concerts

The BBC allowed itself one or two extravagances at the start of this year's season of Promenade concerts. Most noticeably, an array of banners high up in the roof of the Royal Albert Hall proclaims "Proms 100" just in case anybody has missed the publicity campaign.

In fact, there is a bit of a problem here, as people planning the celebrations for the millenium have already found. Should the Proms' centenary be said to fall this year, which is the 100th season, or next, which is 100 years since they started (at the Queen's Hall on 10 August 1895)? Doubtless reckoning that a Proms audience is more often than not in a celebratory mood, the management has decided to have it both ways, in 1994 looking back over 100 years and in 1995 putting the emphasis on the future through new music.

The other notable extravagance was the opening concert. Schoenberg's *Gurrelieder*, for six soloists, double or treble choir and huge orchestra, is about as lavish a work as one could choose. Apparently, Henry Wood always wanted to schedule *Gurrelieder* at the Proms (I note in passing that the title "Henry Wood Promenade Concerts" is gradually being usurped by "BBC Proms") but the chance never came his way.

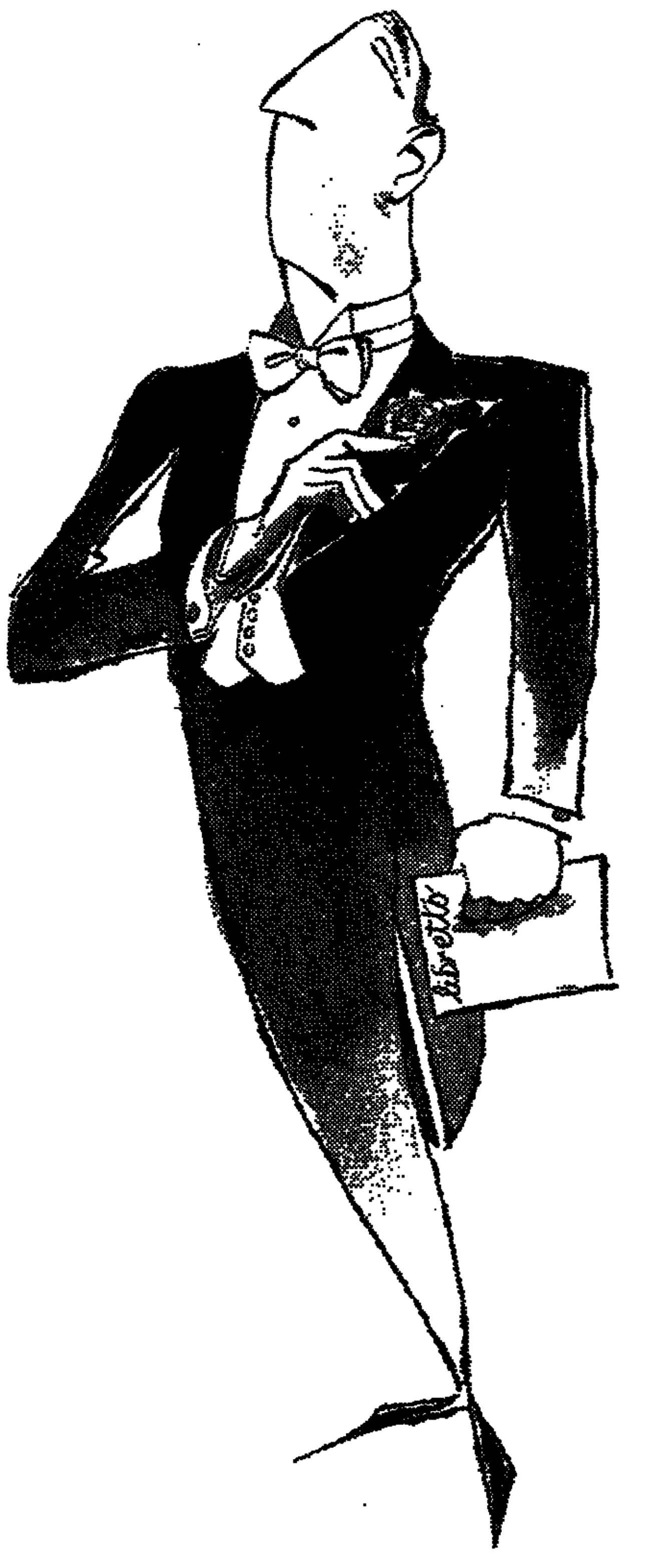
When *Gurrelieder* was performed a few years ago it was played (very capably) by a huge youth orchestra, but for this occasion the BBC dug into its pockets and produced a fully professional performance. Given the importance of the Proms as a showcase for the BBC's own orchestras, it is timely that the most important of them – the BBC Symphony Orchestra – should be playing better now than at any point in the last 20 to 30 years. That is thanks to Andrew Davis, whose reign as Chief Conductor has seen a consistent improvement in the sharpness of the orchestra's playing. Even with a score as massive as *Gurrelieder* he made sure that every detail told, never allowing the music to degenerate into an overblown, post-Wagnerian wallow, as it can.

The soloists were a well-chosen group. Karita Mattila floated beautiful but rather wordless sounds as the ultra-romantic Tove. Ann Murray and Philip Langridge brought vivid characterisations to the Wood-Dove and Klaus the Fool. Unfortunately, I heard little of Neil Breeden's Waldemar, who was on the wrong side of the conductor from my seat. On an evening so heavy with history it was fitting that Hans Hotter, the eloquent Speaker, should be making his Proms debut at the age of 85.

At the second Prom on Saturday history took over. The programme was a replica of that on 6 September 1900, a three-hour pot-pourri of light pieces which we would only expect to encounter these days as encores, if at all. If this is what the Proms used to be like, they have changed beyond recognition. Who said we are at risk of over-popularising classical music in the 1990s? On that score the 1890s won hands down.

The decline and fall of elegance

Dress standards at the Royal Opera House reflect a national malaise, argues **Clement Crisp**



In February 1946, after six years wartime service as a dance-hall, the Royal Opera House, Covent Garden, once again had ballet in residence. On that opening night, our national ballet won its laurels with *The Sleeping Beauty*. As an occasion it seemed a public recognition that peace was truly back in London, despite the bombed buildings, the unrelieved greyness of austerity. The gloss and brightness of *Beauty's* design told us that whatever else had changed – and here was our own ballet rather than some Ballet Russe troupe – our greatest theatre was alive again.

The first night, redolent of such hopes, was also redolent of moth-balls. The audience had dug out long dresses, dinner-jackets and tails, from wartime hibernation. It was a show of faith and social manners that the war might have eroded, but which still survived. "Going to the Opera House" was once more an occasion.

A half-century has changed many things, and not least that attitude towards Covent Garden. Is it wrong to expect some effort to dress *up* to an Opera House visit rather than *down*? In recent months I have been astonished at the dimness and sometimes dinginess of the way people outfit themselves for what must be an expensive night out at opera or ballet. No one today expects dinner-jackets and long dresses, except for important galas. But should not men make some attempt at neatness? Are a rumpled top and sagging slacks (the "Sitting Up All Night in a Train" Look) the best a woman can contrive? I record with some disbelief that latterly I have seen men in shirt-sleeves, grubby jeans, trainers; women in tee-shirts, those fearsome leggings which expose far too much thunderous haunch on all but the slimmest, and boots that would not disgrace a despatch-rider. And a faux-fur poncho.

Grunge may be a style for the very young – and anything the young wear at opera or ballet is right, because the important thing is that they should be there – and Vivienne Westwood may make Hallowe'en outfits and call them fashion, but going to our grandest theatre should imply some idea of dressing for an event. Of course people come on from offices and work-place. Of course they are there to see and not be seen. Yet is there not a reciprocal exchange between stage and audience, where the public expects artists to do of their best, and performers are entitled to believe that we treat their activities with a respect which includes, perish the thought, the courtesy of neat attire?

There is, implicit in all this, something about Covent Garden as it is today. In other opera houses, there seems a perceptible audience response to the look and ethos of the building itself. The public has a special identity – in behaviour and appearance – at the Palais Garnier or the Opera Bastille, at the Mariinsky, or the Met and the State Theatre in New York, or in big German houses. Opulent or smart-but-relaxed, grand or a bit bourgeois-stuffy, they match their surroundings. As they always have, if historical record is anything to go by.

Covent Garden offers little guidance to manners today. The fault is not entirely of the theatre's making, but is owed to national policies that believe that great music, great dance, must be paid for through the nose by the consumer, and that a state owes no duty to its members to make such art available, approachable, affordable. Hence the ever-present sense nowadays at Covent Garden that every penny must be squeezed from the audience. Hence the profusion of bars – the foyer now more like a pub than the entrance to an opera house – and the omnipresent tables for the cold snack brigade. Is there another nation in the world that eats and drinks so relentlessly as the British as an adjunct to watching opera and ballet? There are even people picnicking on the main stairs, spreading glasses and paper plates around them. Munch, munch, munch! Sip, sip, sip! Pay, pay, pay!

This is the policy of a theatre which, in trying to be "approachable" – witness the egregiously vulgar *Opera House* magazine that is its latest PR exercise – has become more like that hell-hole, Terminal 1 at Heathrow, than a great opera house in a capital city. Small wonder, then, that some of the audience dress for Heathrow rather than Covent Garden. It is time, as the proposed Covent Garden closure looms and thoughts of the National Lottery give arts administrators Golconda dreams, for the Royal Opera House to rid itself of its dowdy air, and its cafeteria ideals. Its public might well respond in kind.

Siren Song

A near perfect operetta

Dave is a sailor – a nice boy, innocent, a bit lonely on shipboard. In a magazine, he sees a letter: "Diana, 20, from Southampton, would like to correspond..." He writes to her earnestly and gets a warm reply. Things proceed swimmingly. Soon they are exchanging gifts and plans for their future, though unfortunately Diana has a persistent illness – throat? chest? lungs? – which frustrates their intended meetings.

Time and again, he finds her friendly brother Jonathan waiting at the quayside instead, full of apologies and bonhomie... Here I apologise for going no further. As produced at London's Almeida Theatre by Ian McDiarmid with much ingenuity, *Siren Song* seems a near-perfect little operetta, or musical comedy, and one doesn't want to know too much beforehand.

The original idea came from a novel by Gordon Honeycombe, and before that (I believe) from real life. Nick Dear made a libretto of it, wry, dry and extremely neat. The equally professional Jonathan Dove has set it to easy, singable music, backed by minimalist figurations but essentially in neo-Impressionist mode: imagine Ravel's "Une Barque sur l'ocean" ACT'e' stretched gently over 80 minutes. The denouement ACT1st'e' might have been explored in depth, but Dove has preferred to leave well enough alone; our thoughts can fill out the situation.

It is not easy to guess what the future of *Siren Song* might be. Too long for a curtain-raiser, but it *is* a natural curtain-raiser; best to see it now in this bright staging, and not worry about where it could go next. Fresh-faced, fresh-voiced Niall Morris makes an ideal Dave (and surely, one of these days, a *West Side Story* hero too). Tertia Sefton-Green sings Diana meltingly, and Omar Ebrahim has a whale of a time with sleek, evasive Jonathan.

Smaller roles are filled to the same standard; Paul McGrath is the judicious conductor. This is delightful summer fare, in a single act that seems shorter than it really is. Last performances tomorrow, Friday and Saturday; whether before a lateish dinner or after an early one, *Siren Song* would be equally tasty as an *amuse-gueule* or a *bonne bouche*.

David Murray

INTERNATIONAL ARTS GUIDE

BERLIN

Schiller Theater Crazy for You, the musical based on Gershwin's Girl Crazy, runs daily except Mon till July 31 (2548 9241)
Theater des Westens Cole Porter's musical Anything Goes is in its final week (882 2888)

COLOGNE

Philharmonie The Gershwin musical My One and Only can be seen daily from tomorrow till Sun. Alvin Ailey American Dance Theater is in residence from July 26 to Aug 7 (0221-2801)

GENEVA

The city of Geneva organises a series of concerts throughout the summer, some of them free open-air events. The international music series at Théâtre continues with the gypsy group Camargue on Wed and Latin American jazz star Arturo Sandoval on Fri. The Monday evening jazz series at Cour de l'Hôtel de Ville features legendary American pianist Hank Jones and his trio tonight, and tenor saxophonist Johnny Griffin next week. The classical music series, also at Cour de l'Hôtel de Ville, brings the Nash Ensemble in a Strauss, Mozart and Schubert programme on Wed, followed by the Geneva Chamber Orchestra on July 28 (022-786 5545/022-312 4353)

FRANKFURT

Oper New York Harlem Theatre presents Gershwin's opera Porgy and Bess daily except Tues till July 29 (069-236061)

HAMBURG

● Maximilian Schell stars as Professor Higgins in My Fair Lady at the Deutsches Schauspielhaus, daily till Aug 7 (040-248713)
● Katharina Thalbach's production of Brecht's The Threepenny Opera, with music by Kurt Weill, runs daily except Mon till July 30 (040-322666)
● Hamburg's international jazz festival, known as West Port, opens tonight and runs daily till Sat. The festival tent is located beside the old Hamburg Fish Market Hall in the middle of the harbour area. Most performances start at 9pm. Tonight: Sweet Honey in the Rock and Ladysmith Black Mambazo. Tomorrow: Gilberto Gil and Caetano Veloso. Wed: Dee Dee Bridgewater.

MUNICH

Staatsoper Tonight: Zubin Mehta conducts David Alden's new production of Tannhäuser, with cast headed by René Kollo, Bernd Weikl, Nadine Secunde and Waltraud Meier. Tomorrow: Un ballo in maschera with Dennis O'Neill and Julia Varady. Wed, Sun: Cosi fan tutte with cast headed by Amanda Roocroft and Rainer Trost. Wed (Prinzregententheater): Thomas Moser song recital. Thurs: Giulio Cesare with cast headed by Ann Murray. Fri: Bavarian State Ballet's American programme, choreographies by Lucinda Childs, Robert LaFosse and Twyla Tharp. Sat, next Tues and Fri: La traviata with Cheryl Studer. Sun morning: Hermann Prey song recital. The Opera Festival continues till July 31 (089-221316)
Gasteig Tomorrow, Wed, Thurs, Fri: Lorin Maazel conducts Munich Philharmonic Orchestra and Chorus in Mahler's Second Symphony, with Sharon Sweet and Linda Finnie. Sat: Claudio Abbado conducts Gustav Mahler Jugendorchester in works by Beethoven and Dvorak, with piano soloist Yevgeny Kissin. Sun: Joe Henderson Quartet. Next Mon: Lionel Hampton (089-4809 8614)

NEW YORK

THEATRE
● Three Tall Women: a moving, poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She, Jordan Baker and the droll and delightful Marian Seldes represent three generations of women trying to sort out their pasts (Promenade, Broadway at 76th St, 239 6200)
● Angels in America: Tony Kushner's two-part epic conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestroika, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200)
● Laughter on the 23rd Floor: Neil Simon's 27th Broadway play, about a group of writers trying to come up with a new show, is one of his finest comic efforts. Directed by Jerry Zaks (Richard Rodgers, 226 West 46th St, 307 4100)
● Tommy: a musical written and composed by Pete Townshend, based on the 1969 rock opera by The Who, about a withdrawn young boy who becomes a Pinball Wizard (St James, 246 West 44th St, 239 6200)
● Guys and Dolls: a top-notch revival of the 1950 musical about gangsters, gamblers and good-time girls around Times Square (Martin Beck, 302 West 45th St, 239 6200)
● Crazy for You: the musical based on Gershwin's Girl Crazy recently passed its second anniversary on Broadway. A highlight of this glitzy entertainment is Susan Stroman's choreography (Shubert, 225 West 44th St, 239 6200)
● Tony 'n' Tina's Wedding: a wedding at St John's Church, 81 Christopher Street, followed by a reception at 147 Waverly Place, with Italian buffet, champagne and wedding cake (279 4200)
● Carousel: Nicholas Hytner's bold, beautiful National Theatre production from London launches Rodgers and Hammerstein towards the 21st century (Vivian Beaumont, Lincoln Center, 239 6200)
● Damn Yankees: the big musical hit of 1955 is back in its first Broadway revival, with Victor Garber as the Devil and Bebe Neuwirth as Lola. The director, Jack O'Brien, has extensively re-written the story, about a baseball fan who sells his soul to rescue his favourite team from a losing season (Marquis, Broadway at 45th St, 307 4100)
MUSIC
Lincoln Center's Mostly Mozart Festival runs daily except Sun till Aug 20 in Avery Fisher Hall. Emerson String Quartet gives tonight's all-Beethoven recital. Tomorrow, Wed: Christoph Prick conducts Mostly Mozart Orchestra in Beethoven and Mozart, with soloists Jeffrey Kahane and Sabine Meyer. Thurs: Pinchas Zukerman and Tokyo String Quartet play Beethoven, Mozart and Brahms. Fri and Sat: Jane Glover conducts two programmes, including Mozart's Piano Concerto in C K467 with Maria Tipo (875 5030)
JAZZ/CABARET
● A musical revue entitled Tingle Tangle opens tomorrow at the Ballroom, 253 West 28th St (244 3005)
● Vernel Bagneris continues her salute to Jelly Roll Morton at Michael's Pub, where Woody Allen plays clarinet in his Dixieland orchestra on Mondays. 211 East 55th St (758 2272)
● The fabulous Kurt Wieting presides at the piano in Bemelmans Bar at Carlyle Hotel, Madison Ave at 76th St (744 1600)

PARIS

● Carmen runs daily till Sat at the Bastille, with Marta Senn/Kathryn Harries/Beatrice Uria-Monzon in the title role, Sergey Larin/Alberto Cupido/Daniel Galvez-Vallejo as Don José and Alain Vernhes/Gino Quilico/Harry Peeters as Escamillo. Jose-Luis Gomez's staging is conducted by Serge Baudo/Cyril Diederich (4473 1300)
● American jazz singer Spanky Wilson is in residence from tomorrow till Sat at Lionel Hampton Jazz Club. Music from 10.30 pm to 2 am. July 26-Aug 6: French jazz pianist Laurent de Wilde and Eric Barret Quartet (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

STUTTGART

LUDWIGSBURG FESTIVAL
The next event is a Jessye Norman recital on July 28. Highlights of next month's programme include a concert on Aug 7 with cello soloist Mstislav Rostropovich, the Cleveland Orchestra on Aug 25 and the Pittsburgh Symphony on Aug 28 (07141-939610)

VIENNA

● The Roman ruin in the park of Schönbrunn, the former residence of the Hapsburgs, provides an open-air venue for Vienna Kammeroper's summer productions. Le nozze di Figaro runs daily except Wed and Sun till July 30. Don Giovanni follows from August 9 to 27 (513 0851)
● Vienna's summer concert series, Klangbogen Wien, runs till the end of August. This week's events include an orchestral concert on Thurs at the Rathaus Arkadenhof conducted by Johannes Wildner, and a recital at the Augustinerkirche on Fri by Groupe Vocal de France conducted by John Poole (4000 8410)

ARTS GUIDE

Monday: Performing arts guide city by city.
Tuesday: Performing arts guide city by city.
Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

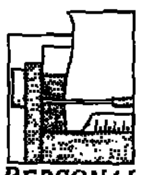
TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Myths of the British labour market


PERSONAL VIEW

Much of the discussion relating to unemployment in the UK places heavy emphasis on the growth in part-time, temporary, service-sector and female employment. The popular argument is that "good" jobs (well paid and full time) are being replaced by "bad" jobs (low paid and part time) and that unskilled men in particular are put at a disadvantage by these trends.

Many observers have argued that men without significant educational qualifications could in the past secure full-time manual jobs at reasonable levels of pay, but that the demand for such employment has declined sharply.

Employment growth has come in either professional or managerial occupations, which demand significant educational qualifications, or in lower-level service jobs, which demand few skills or qualifications but which are low paid and often part time. In general, there is a worry that economic recovery will fail to benefit many disadvantaged groups in the labour market.

Much of this debate is based on false assumptions. Either the purported trends are not taking place at all or have been ongoing over the whole post-second world war period.

Consider the following 10 facts which the data* do establish:

1) Women have been entering the labour force and increasing their share of employment at a steady rate for more than 40 years. Female labour force participation rose fastest in the 1960s.

2) Part-time work in the UK has also been on an upward trend for more than 40 years and in the last decade grew more slowly than in the previous three decades.

3) There is no evidence at all that temporary employment is increasing in importance.

4) Unemployment rates for men and women were very similar during the 1980s. Only after 1990 did male unemployment increase sharply relative to female unemployment. This was due mainly to a sharp fall in male self-employment during the Major recession.

5) Unemployment among young people and the ethnic minorities is very sensitive to the cycle: unemployment for these groups rises most sharply in recessions but falls most sharply in recoveries.

6) The long-term unemployed appeared to benefit at least proportionately from the Lawson boom in the late 1980s, even taking into account the effects of programmes like Restart.

7) The relative labour market position of less well-qualified men did not deteriorate sharply when looking at the whole period 1979-93.

8) The proportion of manual jobs has been declining for four decades, but the decline for both men and women did pick up in the 1980s.

9) These jobs are being supplanted in importance by generally high-paid, high-skill, professional and managerial jobs.

10) The proportion of low-paid, low-skill, service-sector jobs is not increasing.

Unemployment is high because of an absolute shortage of jobs, not the changing nature of jobs on offer

These last three facts are replicated in the US labour market. The US economy has not been disproportionately creating low-paid, low-skill, service-sector jobs; it is high-skill, professional and managerial jobs that have been generated.

So one explanation for the US having a lower unemployment rate than Britain in the last 10 years – that the harsh American benefits system forces people to take the jobs which are mainly being created in establishments like McDonald's – is not borne out by the evidence.

This suggests the UK welfare state does not need to be dismantled in order to generate lower unemployment, though the details of how the tax and benefits system could be improved should continue to be examined to enhance employment opportunities.

The strong growth of professional and managerial employment puts the focus on whether the British education system is producing enough qualified manpower. The answer, at least since the late 1980s, seems to be yes. Between 1988 and 1993 the enrolment rate for young people into higher education in Britain doubled from 15 to 31 per cent.

Through the 1990s this ought to ensure that plenty of qualified manpower is available to meet the needs of the UK labour market.

So why is UK unemployment so high? It is not because of the changing nature of the jobs on offer, but is the consequence of an absolute shortage of jobs. The growth in employment has been held back by tight macroeconomic policy, conditioned by fear of inflation.

Changes in the institutions of pay bargaining, including greater decentralisation and the abolition of incomes policy in the private sector, have probably contributed most to the worsening of the inflation constraint on employment growth.

This, then, is the irony. Labour market deregulation has exacerbated the free-for-all in pay bargaining and, alongside tight financial policies, this has left Britain with high levels of unemployment as the price for containing inflation. The key problem facing the British economy is that of ensuring that steady growth in aggregate demand and employment is not brought to a halt by fear of an accelerating spiral of pay and prices.

We should not be diverted from this debate by a focus on trends in the structure of employment or unemployment which are either not occurring or have been occurring for decades.

Peter Robinson

*The author is research officer at the Centre for Economic Performance, London School of Economics. *The British Labour Market in Historical Perspective: Changes in the Structure of Employment and Unemployment, discussion paper, Centre for Economic Performance*

THE FT INTERVIEW: Lewis Preston, World Bank president

Private view of a public motivator

Visiting the World Bank at its 19th Street headquarters in Washington DC, you would never guess that questions are being raised about its long-term future. You have to negotiate a building site strewn with cranes and earth-moving equipment. With both the bank and the IMF, its sister institution across the street, racing to complete lavish extensions to their already-extensive offices, the area resembles a development zone in southern China.

The World Bank has been expanding rapidly for years. There are now about 11,000 people on its payroll, compared with 8,000 in 1989 and 7,000 in 1984. The number of "higher level" professional staff is now 6,039 (including 1,291 "consultants") – an increase of a third in five years, and more than 50 per cent in a decade. Since 1991, when Mr Lewis Preston took over as president, the bank's administrative budget has risen 44 per cent to \$1.4bn; staff costs (excluding consultants) have risen 43 per cent to \$876m.

To his credit, Mr Preston has no apparent interest in empire building. He welcomes the Group of Seven's call in Naples for a review of the role of international institutions. "If there is any duplication, overlap or waste, let's get it out," he says.

Questioned about the bank's future, he states repeatedly that it must intervene more selectively and become more cost efficient. It would be "absolutely wrong" to continue lending to countries that could easily obtain capital from private sources. "We shouldn't interfere where the private sector is prepared to invest," he says.

Having spent 40 years at J.P. Morgan, the premier New York bank, Mr Preston seems untroubled by the notion of transferring bank functions to the private sector. "Over time the shift that is called for will occur, should occur and must occur," he says. He has an admiration for private enterprise that is perhaps not entirely shared by senior colleagues who have never experienced life outside the public sector womb.

Yet although he seems personally convinced that the bank should contract, this theme does not come across clearly in the bank's "vision statement", to be released tomorrow in a 50th anniversary attempt to redefine its goals and defuse growing criticism. And it is unclear whether he has the stomach for serious "downsizing". At times he gives the impression he is fighting a losing battle against the bank's permanent bureaucrats.

What is the main difference between running the World Bank and running J.P. Morgan? At Morgan, he says, strategic change was readily accomplished. He simply discussed a plan with four or five colleagues and then implemented it. He was able to "incentivise people" and make things happen.

The situation is entirely different in a large public-sector bureaucracy. "Here it is a matter of building a consensus."

But surely, since you are president, you can just order the changes you want? He indicates that life is far more complex. People at the bank, he says, "have seen presidents come and go". They can "wait you out", he adds.

Since 1989, private flows to developing countries have quadrupled to about \$120bn, dwarfing the bank's total commitments of about \$20bn. Didn't this vast increase in private development capital mean the bank had to contract?

"Absolutely," he says. He notes that the bank's loans have fallen off sharply in recent years, partly because countries such as India are awash with private inflows and no longer need its adjustment loans. He hopes there will be "a significant number of graduations in Latin America" – in other words, countries that become too rich to qualify for World Bank support.

But the bank has to move carefully, he warns, because the recent jump in private flows might not be sustainable. It was spurred by interest rates in developed countries that are "at their lowest level since the second world war". And most of the capital is being absorbed by about 20 countries with the best prospects.

He says there are two reasons why the bank's staff and headquarters' expenses have


Terry Kirk

Preston: 'The idea of charging for advice is totally alien here'

risen so rapidly, despite the reduced demand for loans. The first is the need to meet the historic challenge posed by the transition to capitalism in eastern Europe and the former Soviet Union. He cannot cut back elsewhere, because "members were very insistent that we didn't dilute services to the existing customer base".

He is proud of 'changing the emphasis from initiation to implementation'

He has also needed to fill gaps in the bank's skills mix. He has created new vice-presidencies covering areas in which the bank expects to play a larger role in the future: the environment, private-sector development, and human resources such as health-care and education.

The bank now employs 200 environmental experts, compared with a handful when it embarked on the much-criticised Namada dam project in India in the mid-1980s. Lending for human resource development now accounts for 17 per cent of all loans, against 5 per cent in the early 1980s.

While favouring a larger role for the private sector in development, he says some ideas for expanding the International Finance Corporation, the bank's private-sector arm, are facile. The bank proper cannot transfer resources directly to the IFC, because they have different owners. In any case, the IFC has sufficient capital to expand its investments at 12 per cent a year until 2005; faster growth might be imprudent.

The biggest change facing the bank is a likely increase in its advisory role in developing countries and a corresponding reduction in its importance as a financier. With private capital more readily available, the challenge is to help clients restructure their public sectors, so as to create a climate in which private business can flourish.

But if the bank becomes an adviser rather than a lender, shouldn't it charge directly for consultancy services?

Mr Preston likes the idea. "I think selectively we should try it." If the bank charged fees, he muses, it would be able to test the strength of demand for its services. And it could see how it measured up to private-sector competitors. "If Lazard and Warburgs can give it cheaper, and it's better, there will be an even more rapid diminution in stuff," he says.

But then he frowns, remembering that he is at the World Bank, not J.P. Morgan: "But the idea of charging for advice is totally alien around here. They don't like it," he admits.

He says his greatest achievement at the bank is "changing the emphasis from initiation to implementation". He is referring to recent attempts to alter bank culture by judging staff not by the volume of loans they initiate, but by the performance of the projects they help finance. The emphasis on loan volume rather than project success is said to reflect the "production line" mentality of Robert McNamara, the influential World Bank president in the 1970s – and a former head of the Ford car company.

Mr Preston is also proud of introducing the bank to the mysteries of cost accounting. Incredible though it may seem, he says, the bank did not have a means of measuring the costs of different activities. "How can you be selective if you don't know what your costs are?" he asks.

Looking back, he admits he may have adopted too low a profile as bank president. "It's important now that I respond to our critics," he says. Although some parts of Asia are developing enormously quickly, he is concerned by the "desperate" plight of sub-Saharan Africa. "So I don't think 50 years is enough," he says firmly, referring to strident demands from leftwing environmentalists for the World Bank's closure.

Michael Prowse

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Referendums: principle must be binding

From Mr Gabriel Stein.

Sir, Charles Leadbeater and Andrew Adonis ("Power to the people", July 15) argue that established democracies could be rejuvenated by introducing "voter vetoes" in the form of referendums on legislation. But they then state that these referendums should be purely advisory. They would then be meaningless, as the Swedish example shows.

In the 1920s, Sweden voted against prohibition. Severe rationing was introduced. In 1953, it voted to retain left-side driving. In 1967, Sweden changed to driving on the right. In 1958, Sweden voted in favour of voluntary-funded additional pension schemes. Two years later a mandatory pay-as-you-go system was introduced (which is now, incidentally, breaking down). In 1980, the alternatives were less than clear, but the result was definitely a decision to abolish the use of nuclear energy in Sweden by the year 2005. Result: extremely unlikely to occur.

This year, there is a referendum on joining the European Union. Once again politicians of all parties have pledged themselves to honour the expressed will of the people. If the result is a "no", they are likely once again to ignore it. The principle of a referendum can be discussed. But if you use them, the result must be legally binding.

Gabriel Stein,
7 Eagle Place,
London SW7 3RG

Apprenticeships not just replacement for training

From Mr Mike Nixon.

Sir, We were interested to read your survey on modern apprenticeship schemes ("Apprenticeship scheme sparks scepticism", July 13). I chair the London Modern Apprenticeship Group and would like to address some of the points raised.

Modern apprenticeships will give young people who wish to pursue training through a work-based, rather than an academic-based route, core skills. However, modern apprenticeships are meant to exist as an alternative to, and not as a replacement for, educational opportunities.

The article states that there is scepticism over employers' willingness to support the programme. In north London, we are beginning to work in partnership with other industry training organisations (ITOs) to develop a framework for the programme. The fact that there are already strong links between employers and ITOs means that Training and Enterprise Councils will be able to communicate with a far larger group of employers than before. It is these links which will make modern apprenticeships work, and all the employers I have spoken to are very keen to get involved in the programme.

While the modern apprenticeship scheme will indeed help gain work-based skills, it is important it is looked at as one part of the programme to raise the skills base of the population – a programme which includes many other projects designed to complement each other.

Mike Nixon,
chief executive,
North London
Training & Enterprise Council,
Dumayne House, 1 Fox Lane,
Palmers Green,
London N13 4AB

Disabled bill seeks equal, not special, treatment

From Mr Stuart Etherington.

Sir, Having recently returned from Glasgow, where I stayed in one of the few hotels in the UK which has facilities for deaf people, I was pleased to read of Lord Tebbit's comments encouraging hoteliers to improve facilities for disabled customers ("Tebbit fires salvo for disabled", July 14). For too long, disabled people have been viewed as "problems" rather than as valued customers and a source of revenue. Deaf people have a great deal of loyalty to those hotels which they know have adapted facilities. A lesser-known fact, however, is the low cost that such adaptations involve, and how easy they are to install. In the US, where there is legislation, deaf and hard of hearing people no longer have to plan their trips around where these facilities are to be found.

Lord Tebbit expressed concern over the potential costs of the Civil Rights (Disabled Persons) Bill. Many of the costs in the government's analysis of the bill are inaccurate, and are based on a five-year implementation timetable. The bill provides for the timescale to be approved by the secretary of state and includes both a test of reasonableness and provisions to exempt businesses where adaptations would create undue hardship.

The essence of the bill is equal treatment not special treatment. What is needed is full discussion by all sides – business, government, disabled people and their organisations – to ensure that all the UK's disabled citizens have access to reasonable accommodation in hotels and elsewhere.

Stuart Etherington,
chief executive,
Royal National Institute
for Deaf People,
105 Gower Street,
London WC1E 6AH

Criticisms ignore key elements of US growth and trading pattern

From Prof Wynne Godley and Mr William Milberg.

Sir, Robert Solomon (Letters, July 9) asserts that the improvement in the US balance of payments between 1986 and 1992 disproves our statement (Personal View, July 6) that the "underlying" US trade deficit has been deteriorating, claiming that we ignore the effect of relative growth rates. But Mr Solomon is himself ignoring the fact that, between 1986 and 1992, the balance was improved because US growth was exceptionally slow relative to that in the rest of the world and because the trade-weighted dollar fell by 37 per cent between 1985 and 1991. Mr Solomon is thus guilty of the error he attributes to us.

Our article was based on an analysis of the US balance which treated oil, agriculture, transfers and property income separately, and adjusted everything else for relative growth rates and the large fluctuations in the dollar which occurred in the 1980s. Our conclusions are thus grounded in a "structural" analysis of just the kind Mr Solomon aspires to.

Mr Avinash Persaud (Letters, July 12) suggests that recent increases in US exports, particularly to South America and Asia, call our disquieting conclusions into question. Mr Persaud only concerns himself with exports, ignoring imports, for which the US has a mighty dynamic potential; total US imports of goods and services have risen in volume by 30 per cent in the last three years.

He should be worried (for instance) by the fact that US imports from China doubled between 1990 and 1993, rising by \$16bn, while exports to China only rose \$4bn. And imports from Japan are still looking dynamic, causing an \$18bn deterioration in the (bilateral) trade balance. Even US success in exporting to Asia as a whole, to which Mr Persaud attaches such importance, has not been enough to prevent the trade balance (with Asia) from deteriorating.

Dollar weakness may indeed threaten the "fragile economic recoveries in Europe and Japan". But the conclusion we draw is that, if Europe and Japan really want sustained recovery, they should do something about it for themselves, by adopting more expansionary policies. Why should the US continue to act as an engine for export-led growth in the rest of the world, at the cost of building up foreign indebtedness on a scale which, if unchecked, will have extremely damaging consequences, not just for the US but indirectly for the rest of the world as well?

Wynne Godley,
William Milberg,
The Jerome Levy Institute,
New York, NY 12504, US

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Monday July 18 1994

Reform and a new union

The results of the elections in Ukraine and Belarus, where broadly pro-Russian politicians were elected to the presidencies of both countries, pose more sharply than before a choice for Russia: should it seek to capitalise on the new presidents' preferences for integration of their economies into Russia? Or continue to treat them as separate countries?

The temptation of the first way is large. President Boris Yeltsin of Russia is continually under fire for destroying the Soviet Union. To bring Ukraine and Belarus back within the Russian fold would at a stroke give half of the expatriated Russians a "home" again. It would, in short, be a marvellous diplomatic coup.

Most Russians believe, in any case, that these countries cannot construct their own statehoods. Belarus has evidently failed. The politicians who stood for a (mildly) independent and democratic path for the state gathered a little more than 20 per cent of the votes in the presidential elections: the front runners were those who offered a variant of national abnegation. In his first appearance, Mr Alexander Lukashenko, the Belarus president-elect, went out of his way to stress his country's dependence on – almost prostration before – Russia.

Mr Leonid Kuchma, the new Ukrainian president, has given significantly different signals. He revealed, for example, that his first meeting was with the US ambassador rather than the Russian. He does not wish to introduce a separate currency, neither will he neuter the central bank, nor welcome back Russian soldiers in Ukraine. Though he won on a pro-Russian ticket, his role may be to disappoint his supporters – by making them face up to the hard fact that, once the Soviet Union has been pulled asunder, it is very hard to reassemble it without the help of the Communist party, Gosplan and the KGB.

Mr Kuchma knows, and Mr Lukashenko will discover, that the arguments against a tripartite Slav Union are strong – especially for Russia, which would be landed with two of the largest industrial restructuring problems in the world, beside its own. Belarus, especially, believes that once back in the Russian fold it would be taken care of as before: but those days have gone.

No Russian government can afford such a burden. It is conceivable that Belarus would assent to become a north-western province of Russia again. But it would still be subjecting its industries to the colder winds of Russian reform, which is far in advance of its own. Ukraine will not accept a similar status. And it would, in any case, have to face the reforms it has avoided for three years.

There is much that can and should be done on tariffs, customs and payment arrangements. But these are as much part of the needed market reforms in each country as the subject of special treaties. A union cannot be viewed as a substitute for reform, either for Russia, or for the other two. Once that is realised, much of the enthusiasm for it may also vanish.

Puzzles over jobs

Encouraging it may be. Crystal clear it is not. The UK economy last week breezed through another month's price, wage and employment data, entering the weekend with the added windfall of an endorsement from the OECD. Little has changed in the general picture of the recovery which previous months' figures have revealed. But no change, either, in the murkiness of some of the details.

The OECD's comments on the UK economy might be by Mr Kenneth Clarke himself. Overall, the organisation judges the UK to have made "major strides" in restructuring its macro-economic policy framework. Barring mishaps, the authors expect the UK at the end of next year to be exhibiting much the same mix of above-trend output growth, low inflation and falling unemployment, "albeit with the latter still above its 'natural rate'".

The OECD parts company with Mr Clarke when it comes to the longer term: not least over his ability to deliver the government's ambitious targets for public spending. But last week's economic data will have given the organisation few reasons to revise the optimistic shorter-term prognosis.

Producer and consumer prices continue to rise at a restrained pace. For the third month in a row, the retail price index was up 2.6 per cent year on year, well within the government's 1-4 per cent target range. The underlying growth in average earnings was also unchanged, at 3.75 per cent year on year.

The OECD agrees with the Treasury that gross domestic product will grow by about 2.75 per cent this year, although the organisation differs in expecting this to edge higher in 1995. Both seem to think the economy can grow faster than its historical trend of 2.25 per cent without immediately endangering the government's inflation targets. This seems plausible after a long recession.

The labour market also appears to be giving good news. Eighteen months ago, when the OECD last analysed the UK, few predicted the steady fall in unemployment which started soon after. But, even though 329,000 fewer are now claiming the dole, earnings and employment data show little sign of an upsurge in the labour market. Average weekly hours in manufacturing have now fallen for two consecutive months, while the number working short-time has actually increased.

Even more striking, the total number in employment remains 37,000 fewer than when unemployment started to fall in January 1993. Indeed, the number of men employed, down 138,000 over the period, has not registered a quarterly increase since the end of 1989. Why this recovery has proved jobless in this way is not easily understood, though part of the reason must be that economic growth has been little faster than the long-term trend. Whatever the reason, the failure of employment to rise may also deprive the government of a solid recovery in its popularity.

Rail dispute

Britain's rail dispute is hotting up. The RMT rail union has decided to call two-day strikes by signal staff in pursuit of higher pay for past productivity increases. The disruption suffered by the travelling public – and British Rail's freight customers – will increase. An appropriate reaction is now needed from Railtrack, the state-owned company that runs British Rail's track and signalling operations.

One option would be to settle the dispute as quickly as possible. The disruption is already costing British Rail many times the price of a settlement. It could also threaten the privatisation of the railways, by exposing the vulnerability of the train-operating companies to action by Railtrack staff. A well-run private business would probably settle. It would then recoup the cost through fierce cost-cutting and change its employment practices to avoid a repetition.

Railtrack does not have that freedom, however. The government has already interfered to stop an earlier settlement. It fears that changing its mind might encourage others to challenge the public sector pay-bill freeze.

An alternative would be to respond to the union escalation in kind. Those who long for a more macho response recall President Ronald Reagan's approach to striking air traffic controllers: offer the strikers personal contracts, sack those who refuse to accept them and train replacements as quickly as possible. Seductive though that would be, it would close the rail network for months – especially if other rail staff came out in solidarity with their signalling colleagues.

The most promising approach is a combination of carrot and stick. Railtrack needs to do much more to talk directly to its signal staff, and to point out the damage the strikes are doing to their future. The opening of the Channel tunnel, with the opportunities it brings to export by rail, is no time to be reminding customers of the past unreliability of the railways.

The company must also make it absolutely clear what is on the table for each of its signalling staff – and what it hopes to offer in return for further productivity improvements. And it could sensibly make a concession to the relief staff who are the main losers under the current offer. Given the high turnover of relief staff, it would cost little to allow existing staff to retain their current pay and apply the new terms to new recruits only.

At the same time, Railtrack should be firm in dealing with attempts to disrupt the network by tactics such as next week's two-day strike. The strike will run from noon on Tuesday to noon on Thursday, effectively disrupting the rail network for three days. Those staff who join it should lose three days' pay.

There are no quick solutions to strikes such as this. But a combination of persuasion and firmness is the most likely way to bring it to an early end.

Ne'er the rose without the thorn

Blair as leader would revive the UK Labour party, but tensions would remain just below the surface, says Philip Stephens

This week Mr Tony Blair will be anointed leader of the Labour party. That much is certain in the unpredictable world of British politics.

Those on the unreconstructed left who believe the party might rediscover, even now, its collectivist dreams by choosing Mrs Margaret Beckett or Mr John Prescott have until Thursday's announcement to cherish their delusions.

Mr Blair's election will change the character of his party – and the landscape of British politics. Her Majesty's loyal opposition will have a leader preoccupied with the future, not shackled by the past.

Let's not get carried way. It is no use trying now to predict the outcome of a general election which might not happen until 1997. Mr John Major has defied the pundits more than once. The economy looks better by the day. Mr Blair may be brimming with ideas but the 41-year-old former public schoolboy lacks experience.

And if no one can doubt the direction in which he intends to take Labour, it is far less certain how fast he can travel in replacing socialism with social democracy.

After four election defeats, the party seems to have realised it is time to grow up. How else could it have come to the conclusion that the standard-bearer of its so-called modernisers' tendency was the only realistic choice to succeed Mr John Smith?

But many in its ranks are still reluctant to give up the simplicities of political childhood. As the candidates have trudged around the country seeking the support of party and trade union activists, Mr Prescott's call for a return to full employment has struck an emotive chord. Mrs Beckett has reasserted the leftwing principles most thought she had buried long ago.

The smart betting at Westminster is that Mr Prescott will displace her as deputy leader. Either way, the 1m party members and trade union levy payers expected to participate in the contest will vote with their heads for the leader and their hearts for the deputy.

Mr Blair has remained publicly neutral. The truth, probably, is that he would prefer neither candidate.

Mrs Beckett is too much a creature still of the hard left. Mr Prescott is far more intelligent than he sometimes sounds; and he is loyal. But his traditionalist bluntness jars with the soothing rhetoric of the modernisers.

Mr Blair is tough. His youthful good looks and the Bambi jibes belie the inner certainty which distinguishes political leaders from those they lead. He has the support of the vast majority in the shadow cabinet and of the party's MPs.

Thanks to the grip on the party machinery established by the then leader, Mr Neil Kinnock, during the late 1980s, he will command also a large majority on the National Executive Committee.

He is already planning his own changes to the way the party shapes its policies. He sees the cumbersome policy commissions driven by the party headquarters in Walworth Road as introspective and stifling of innovation.

He intends to provide room in the machinery for the more original ideas of left-leaning think-tanks, such as the Institute for Public Policy Research, and of free-thinking backbench MPs like Mr Frank Field.

So his deputy's power will be limited to a capacity to make life occasionally uncomfortable, rather than seriously to obstruct. Mr Gordon Brown, the modernist shadow chancellor who stood aside to allow Mr Blair a clear run at the leadership, will have more influence than either candidate.

But first the new leader must define his project.

The campaign has told us more than his critics allow about his ambitions. He has not provided a blueprint for the party's general election manifesto. Nor has he answered the persistent questioning of those who insist he should spell out, at least two years before the election, just who might or might not pay more in tax if he reaches 10 Downing Street.

Instead Mr Blair has stuck resolutely to elaborating a set of basic principles. In six speeches since the start of the campaign, he has added a series of policy signposts rather than specifics to the philosophical framework.

The approach has irritated those who believe that politics is about detail rather than direction. It has worried some of Mr Blair's own admirers, who think he has been more cautious than necessary in sketching out the modernist agenda. He is unrepentant. He acknowledges the caution but has told close colleagues there is also careful calculation.

Labour has spent the past decade chasing the Conservatives. The piles of ideological baggage left behind by repeated accommodations with the government have not been replaced with any fresh analysis of Labour's purpose.

During the 1980s, it promised not to renationalise, admitted half-heartedly there was something to be said for the market economy, stripped its manifestos of pledges to soak the rich. It then added in a few random commitments to spend, say, a few billion pounds extra on child benefit and pensions.

Mr Blair's contention is that Labour needs a coherent prospectus. The electorate above all wants to know where it is coming from. That means being comfortable with a set of its own ideas, not combining grudging accommodations with the Tories with a clutch of pledges drawn from rose-tinted images of a socialist past.

He regards building enough credibility to win the next election as a three-stage process. Labour must first redefine its core principles. It needs then to construct a policy agenda rooted in that intellectual framework. Finally, it must offer the electorate a series of "flagship" policies to illuminate the link between principle and practice.

His aim during the campaign has been to concentrate on the first task while pencilling in the outlines of the second. The detailed policies can wait until much closer to the general election.

Hence the constant repetition now of the central Blair message: that Labour's purpose is to reconnect individual aspiration with the actions of government. The party must reposition itself as one concerned not to constrain but to promote individual opportunity by reawakening faith in the notion of society. In Mr Blair's own phrase: "The simple case for democratic socialism rests on the belief that individuals prosper best within a strong, active society."

That means Labour cannot any longer be about offering fixed economic prescriptions or old-style collectivism. Nor can it apply to the rapidly changing world of the 1990s the ideology of the 1960s or 1970s.

The speeches have carried a series of more particular messages. Labour must embrace the "dynamic market economy". It must forget its old hang-ups about state ownership and abandon the notion that governments can pick industrial winners. It must understand that it is impossible to insulate Britain from the realities of global competition.

In education, the priority should be to raise standards rather than indulge the political correctness which allows schools to blame social deprivation for poor performance. Labour must understand the purpose of the welfare state is not to create dependency but to provide escape routes. The unemployed have responsibilities as well as rights. The role of the state is to help them find work through training or childcare provision, not pay them to be idle. Criminals, meanwhile, should expect to be punished rather than excused.

In Europe, the British have no choice other than to be positive and committed about closer European co-operation. The government must maintain strong and credible defences.

Less controversially for members of his own party, Mr Blair has put constant emphasis on the role of education and training in promoting both faster economic growth and individual opportunity. He has promised to close existing loopholes to make the very rich pay at least some tax. He has pledged to overhaul and eventually replace the House of Lords and to devolve political power to Scotland, Wales and the English regions.

His strategy has been derided by the Conservatives. The Labour-leader-in-waiting has been renamed Tony Blur

The strategy has been derided by the Conservatives. The Labour-leader-in-waiting has been renamed Tony Blur. Ministers are prepared to demand answers to a barrage of detailed policy questions the moment his election is confirmed.

But, overall, the Tory response has betrayed the government's own uncertainties. The initial instinct has been to attack Mr Blair as another of Labour's chameleons, willing to twist and trim to win a few more votes but at heart an unreconstructed socialist. He is said to be a man of sound-bites not substance, a creature of the sharp-suited media men who tried to hide Mr Kinnock behind the party's Red Rose image.

But there is private acknowledgement that the easy points which could be scored off Mr Kinnock's policy U-turns are no longer on offer. Sure, Mr Blair stood in the 1983 general election on a platform of withdrawal from the European Community. Sure, there are quotes to be found which reveal he has not always been quite so modern about nationalisation or trade union power. And doesn't he even now support the minimum wage?

The problem is that this fresh-faced Oxbridge graduate simply does not look or sound like a closet Trotskyist. He has never been one.

Nor does Mr Major's government appear confident of where it should position itself to win back the disillusioned voters of middle England.

The prime minister told his supporters at Westminster earlier this month that their priority must be to dispel the impression of convergence between a post-Thatcherite Tory and a Blair-led Labour party. He has not spelt out how.

Some among his cabinet colleagues believe the government must move further to the right to give definition to the choice facing the electorate. It must sustain the Eurosceptic flavour in its approach to Brussels, which saved it from catastrophe in the European elections last month. Above all, it must start cutting taxes again well before the election.

Mr Douglas Hurd, foreign secretary, and Mr Ian Lang, Scottish secretary, are among others around the cabinet table who take a different tack. They fear that vacating the centre ground will hand to Labour the votes of the discontented skilled and middle classes whose preference will decide the election.

Others still – Mr Kenneth Clarke, the chancellor, is the most prominent – favour a delicate balancing act, promising both to address the new insecurities of middle England and to deliver another burst of Thatcherite radicalism.

Mr Blair draws comfort from the confusion. He should not be complacent. He, too, has to take his party with him.

By and large, it has been receptive, occasionally even enthusiastic. After 15 years of opposition, most in the shadow cabinet don't want to give up again the chance to climb each night into one of those swish ministerial cars rather than stand in the taxi queue for King's Cross.

The generation of Labour MPs which entered Parliament in 1992 has changed the political balance of the party at Westminster. The newcomers, particularly those who won marginal seats, are well attuned to political realities. The once vibrant Campaign Group of hard-left MPs discovered last month that it could not muster even enough votes to nominate its own candidate for the leadership race.

More importantly, the one-member-one-vote system under which the election is being conducted, has deprived the trade union leaders of their influence. The executive of the Transport and General Workers Union made a fool of itself by backing Mrs Beckett at the outset. Others, more wisely, have kept their counsel.

But these are early days. Many in the Labour party share the weaknesses of the reformed alcoholic. How easy it would be to slip back into making just one or two big new tax and spending pledges; to buy peace with the party's union paymasters with a promise to sweep away the Tories' employment law; or to spell out just how Labour would insulate the low-paid from the realities of the marketplace.

Admirers who have applauded Mr Blair's agenda during the campaign often have been unwilling to own up to the hard truths that lie behind it. A reformed welfare state means an end to easy generosity. A modern economic policy implies acceptance that there is no pot of gold to be had from putting up the top rates of income tax. Some time soon, the party will have to own up also to the fact that the idea of returning schools to the control of Labour local authorities is not exactly a vote-winner.

The risk has been evident in Mr Blair's own speeches. There has been a suppressed tension as the prospective leader has sought to balance the demand for change with reassurance to his party's traditionalists. For all his rhetorical skills, the joins show.

Too often Labour has discovered too late that its own concept of modernisation lags well behind the expectations and aspirations of the electorate.

Mr Blair has done well over the past six weeks. So has his party. He is right to judge that the voters are more interested in ideas than detail. But six weeks is a short time in politics. This has been the easy bit. Labour must now show it can face up to the hard truths. Mr Blair will discover that leading his party is a great deal tougher than being chosen to lead it.

OBSERVER

Whizzbangs and harriers

■ Malcolm Rifkind, UK defence minister, was sniped at last week for some swingeing armed forces' cuts. So perhaps it's only fair to award him a DCM – the Distinguished Conservation Medal – for leaving one unit untouched.

Surviving to fight another day is the four-strong Ministry of Defence Conservation Unit, based in Chessington. Its job is promoting and protecting the wildlife and ancient monuments inhabiting the vast expanses of MoD land – much of which gets crushed by tanks or blasted by bombs.

James Baker, the retired colonel in charge, was delighted but not astonished to have escaped the axe: "We have some of the best sites for butterflies, reptiles and bats in the country ... we're at the forefront of the conservation drive."

Baker argues that artillery craters are good for flowers – the shell-holes open up the soil – and that bullet holes cause trees to ooze resin, so attracting lichens.

The latest issue of Sanctuary, the unit's annual magazine, carries articles on birds inhabiting the weapons-testing area at Foulness; choughs on the Castlemartin tank firing range in Pembrokeshire; and moths at Porton Down, site of the MoD's chemical weapons research plant.

A piece on orchids and butterflies at the Arpinge Ranges in Kent says: "The MoD has preserved a precious landscape which might long ago have disappeared if subjected to the commercial pressures of modern farming."

Presumably flying shrapnel deters the nest-raiders, too.

Walking tall

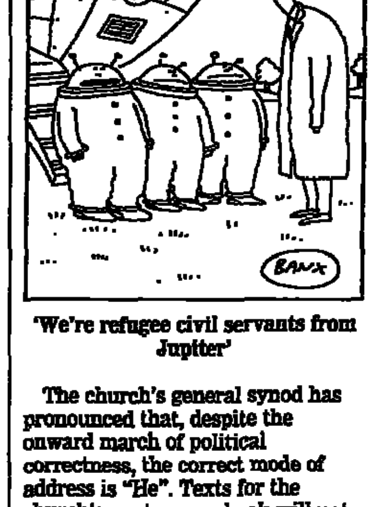
■ Chasing news stories on a sunny Sunday in London can be a little like using noses to push peas uphill. The great and good of UK corporate life are – naturally – far from their offices, catching well-deserved rests from the weekly travail.

Leading the outdoor pursuits, one might imagine, would certainly be Alan Mattingly, director of the Ramblers Association.

Not a bit of it. Yesterday, in the sultry great wen, Mattingly was at his office desk, ready to field questions about government plans for the Forestry Commission. Hardy types, these hill-climbers.

Wholly it

■ So, God remains a man. At least, that's how the Church of England has decided to regard the deity.



'We're refugee civil servants from Jupiter'

The church's general synod has pronounced that, despite the onward march of political correctness, the correct mode of address is "He". Texts for the church's next prayer book will not refer to God as "Mother" or "She".

The synod has thus endorsed a report from its Liturgical Commission, which argued God should be addressed "in terms borrowed from our human understanding of fatherhood and monarchy".

Still, novelty creeps on apace. The commission also said new forms of prayers, avoiding gender references, could be introduced. So sometimes God will be It, after all.

Frosty logic

■ A new iciness prevails between Deutsche Bank and Dresdner Bank, Germany's two-largest credit institutions.

Oddly enough, the chill is attributable to a heating equipment company called Buderus, sold off by the ailing Metallgesellschaft group last month.

The two banks co-operated to place shares in Buderus – raising DM1.2bn of much-needed cash for MG – but Dresdner subsequently played its own wily game.

Dresdner has now popped up as a 10 per cent shareholder – on its own account – in Buderus. It's also helped Bilfinger & Berger – one of Germany's biggest construction companies – buy a further 15 per cent.

The Bilfinger move is being interpreted as a possible prelude to a full-scale takeover. In any case, the action seems to have taken both Buderus and Deutsche Bank by surprise. Deutsche's protestations that the placing guaranteed Buderus' independence now look, well, somewhat ill-informed.

An added piquancy is that secret accumulation of big share stakes is shortly to become illegal: under the terms of the long-awaited Financial Markets Promotion Act, due to be enacted on August 1, companies will have to disclose stakes when they reach 5 per cent.

Understandably, Dresdner says it's not broken the law, because the law was not yet in force. Impeccable logic. But perhaps faulty public relations?

Roman sauce

■ Romans are as fond of political jokes as anyone; the arrival of the charismatic Silvio Berlusconi as prime minister prompts the following tale.

Berlusconi dies and goes to hell. But Lucifer quickly finds him impossible and arranges him a transfer to purgatory. There he creates equal mayhem, with multiple takeover bids, cross-ownership deals and so on. Eventually, for the sake of a quiet life, St Peter admits him to Paradise.

Two weeks later, Lucifer rings up to ask how it's going. It's all quiet, says St Peter.

Oddly quiet, he thinks, and goes to see what Berlusconi is up to. He finds him closeted with God, whom he overhears saying: "OK, that's *you* sorted out. But me ... why only *vice*-president?"

FINANCIAL TIMES
Monday July 18 1994

Bloody clashes cast shadow over peace accord

Two Palestinians shot dead in Gaza rioting

By Julian Ozanne, Jerusalem correspondent

The Israeli-Palestinian peace agreement came under severe strain yesterday after Palestinian and Israeli police exchanged fire as rioting erupted in the Gaza Strip.

Israeli troops shot dead at least *two Palestinians and wounded* more than 70 at the main Gaza-Israel checkpoint, after thousands of workers waiting to cross into Israel rioted, burnt 40 Israeli buses, set fire to a petrol station and hurled stones. The clashes were *the bloodiest since* Mr Yassir Arafat, PLO chairman, returned to Gaza this month.

Israeli and Palestinian witnesses said Palestinian police and Israeli security forces exchanged fire for the first time since Palestinian self-rule was implemented in Gaza-Jericho. An Israeli soldier and an Israeli border policeman were seriously wounded and at least 15 others were hurt.

Israel sealed off the Gaza Strip and Lt-Gen Ehud Barak, Israeli army chief, blamed Palestinian police for failing to prevent the riots and for causing some of the casualties.

However, Mr Arafat said the Israeli shootings were a violation of the peace accord and called for the immediate deployment of international observers in the Palestinian self-rule areas.

It remained unclear last night how the riots started. Palestinians said Israeli checkpoint forces deliberately delayed for several hours thousands of migrant workers trying to make the dawn crossing into Israel. *Israel said a Palestinian* seized the gun of an Arab policeman

Peres takes softer line on Golan Heights..........Page 4

and fired towards the checkpoint, and that Israeli forces fired back in self-defence.

Whatever the case, the incident has cast a shadow over recent optimism about the success of the peace agreement. Under the accord, Palestinian police are responsible for maintaining law and order over Palestinians in *the self-rule areas. Although the* rioting may have been provoked by Israeli delays at the checkpoint, the Palestinian police appeared confused and unable to control the mob.

Many of the guerrillas-turned-police have had only rudimentary training in crowd control and feel uneasy about putting down Palestinian violence directed against Israel.

More seriously, any evidence that Palestinian police deliberately *fired their weapons at Israeli* security forces would provoke a fierce backlash in Israel against the accord.

Israel stopped short yesterday of accusing the police of deliberately firing against Israelis, but Mr Oded Ben-Ami, *the prime* minister's spokesman, blamed the Palestinian police for most of the casualties and said they had opened fire in every direction, including at Israeli troops.

Mr Rashid Abu-Shebak, a *senior Palestinian security official*, said that among the wounded were 25 police and that the police only fired in the air. Another official, however, said if the police had fired at Israelis they had done so because they *had no alternative but to return* fire in self-defence.

Experts on the peace process said yesterday's incident was "waiting to happen" because the joint security arrangements at the approach to the checkpoint are *near-impossible to implement*. Quicker procedures should have been put in place.

The incident will also have implications for Mr Arafat by fuelling the domestic Palestinian opposition to the agreement.

French minister resigns to speak out over graft probe

By John Ridding in Paris

French prime minister Edouard Balladur's government suffered a blow last night with the *announcement of the resignation* of Mr Alain Carignon, the communications minister.

In a brief communiqué announcing his surprise decision, Mr Carignon said he was stepping down from the French government because he wanted to be able to express himself freely in a corruption investigation involving a publishing company in *Grenoble, the Alpine city where* he is mayor.

In stepping down, Mr Carignon has become the latest figure to be *involved in a series of corruption* investigations over the last few months into French politicians and businessmen.

Mr Balladur *said that he* "saluted" Mr Carignon's decision and that he hoped the case would allow Mr Carignon to establish his good faith.

The investigation behind Mr Carignon's resignation concerns Dauphiné News, a press group, which publishes a magazine near Grenoble. In a letter to his staff, Mr Carignon said that the affair did not involve any intentional concealment or diversion of public funds, nor any personal enrichment or tax evasion.

*"In withdrawing from the gov*ernment I will become again a citizen. In taking my liberty I am also ensuring that neither the *independence of the judiciary nor* that of the government can be compromised," he said.

Mr Carignon said he had resigned so he could formally be charged under the investigation and so have access to police files for his defence.

He is the first minister to resign since the Mr Balladur's centre-right government took office in March last year.

He submitted his resignation yesterday, and it was accepted by the prime minister. A statement from Mr Balladur's office said Mr Carignon's functions would be taken for the time being by Mr Nicolas Sarkozy, the budget min*ister*.

Over the past few months, a number of political and business figures, from both the right and *the left of the political spectrum* have been involved in corruption investigations.

Soap wars

Continued from Page 1

over the Unilever detergents. *Procter & Gamble said Unilever's* comments on the new detergent were "pure speculation" since none of the new product has yet left its factories.

Unilever is not sure the Procter & Gamble product it is preparing *to test will be the final formula*tion for Ariel Future.

Microsoft anti-trust deal

Continued from Page 1

the anti-trust laws of the two *jurisdictions."*

Complaints from other software groups that Microsoft used *unfair tactics to limit competi*tion prompted the US Federal Trade Commission to launch the investigation four years ago. It *was later taken up by the Justice* Department, and the European competition authorities launched a similar probe last year.

The Justice Department anti-trust suit cites in particular Microsoft's "per processor" licensing contracts, which require personal computer manufacturers to pay royalties to Microsoft based on the number of computers they sell, regardless of whether Micro*soft programs* are installed on all the computers.

Kuchma invites IMF head to talks in Kiev

By Chrystia Freeland, recently in Kiev

Mr Leonid Kuchma, the Ukrainian president-elect, has invited Mr Michel Camdessus, managing director of the Inter*national Monetary Fund, to* come to Ukraine to negotiate an economic restructuring package "in the very near future".

His decision to open talks with the IMF even before his inauguration tomorrow suggests that Mr Kuchma, who *benefited from* pro-Russian and pro-communist sentiment in last week's election, intends to pursue a different agenda now that he is in office.

"I hope that in the nearest future Mr Camdessus will come *here,"* Mr *Kuchma said at the* weekend. "He promised me that he would come. He said if there are concrete *proposals for reforms* he will come to Kiev."

Mr Kuchma was swept to power in the election by Russian-*speakers in eastern Ukraine and* Crimea who were won over by his calls for closer links with Russia. Now safely elected, Mr Kuchma is softening his pro-Russian rhetoric.

He said he favoured "a Euro-*Asian common market*", but not a return to the rouble from its present currency, the coupon. As for political union, Mr Kuchma *said that the Commonwealth of* Independent States was sufficient, indicating that there would be no transfer of power from Kiev to Moscow.

Instead, Mr Kuchma's initial overtures have been toward the west – *he met the US ambassa*dor the day after the election – and his early statements have been pro-reform. He is eager to *revive stalled negotiations with* the IMF, and claims to be committed to the austere policies the IMF could demand.

The *surprisingly pro-western* orientation of Mr Kuchma, who was once director of the factory which built the Soviet Union's most powerful nuclear missiles, extends to nuclear disarmament.

"I will stick to the agreement *signed by Kravchuk, Yeltsin and* Clinton," Mr Kuchma said of the tripartite deal made in January in which Ukraine pledged to give *up all the nuclear weapons on its* territory.

Mr Kuchma said the \$350m (£230.2m) Ukraine was granted by the US to help finance dismantling the missiles is insufficient. "This is an ecological problem and the west, including Europe, should help us."

Western aid officials say that if the Kuchma administration *rapidly pulls together a reform* programme, Ukraine could reach an agreement with the IMF for an economic restructuring loan of \$700m as early as the end of August.

Kuchma show his true colours, Page 2

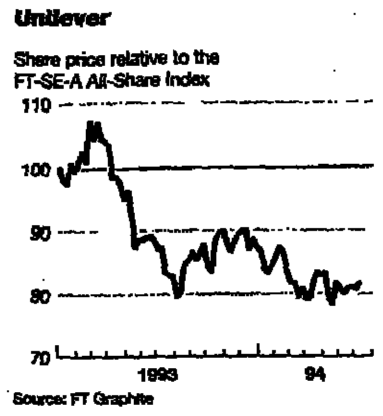
THE LEX COLUMN

Unilever's soft soap

This will be a big week for Unilever. Having been sent reeling by Procter & Gamble's assault on the quality of its new washing powders, Unilever will try to wrest the initiative back through a public relations campaign. This week's presentations – rejecting the claims that its washing powders rot clothes – could prove critical in determining whether the detergents succeed across Europe. They could prove just as important in re-establishing the reputation of Unilever's management, which has been sullied since the row began.

In quantitative terms, the powder wars are of limited financial importance to Unilever. The group has sold £325m of new powder so far. That is small in relation to group annual profits of well over £2bn. The chief concern would be if the mud thrown at *Omo Power* and Persil Power were to stick to Unilever's other detergent brands. But there is no evidence of that to date.

The more worrying aspect is qualitative. Launching consumer products successfully is the lifeblood of the company. Shareholders understandably grow uneasy when that starts to go awry. The company's touch has appeared unsure since the accusations started to fly. The subsequent reformulation of its powders and the dropping of litigation against P&G have *come as further public relations* blows. Shareholders will hope the affair will prove cathartic. Unilever will certainly need to show it has regained its poise before P&G launches its own new detergent this autumn. At least the scorching weather must be doing wonders for Unilever's ice cream sales.



Renault

French and foreign bankers will receive letters this morning inviting them to bid to advise the government *on its 80 per cent stake* in Renault. They will be smacking their lips. Whoever wins the adviser's mandate will parade *it like* a trophy. *Though the* government is not yet committed to an early privatisation of the car maker, a sale looks increasingly likely. *Assurances Générales de France* was originally slated as the next privatisation candidate. But international investors have recently been so *stuffed with new insurance issues that* they probably have little appetite for another one just now. Investors would welcome Renault, which is in the midst of a cyclical upswing, as a variation in their diet. If France does decide on an early privatisation, the timetable will be tight. Given trade union opposition, waiting until 1995 would not be advisable. With presidential elections next May, a Renault privatisation in 1995 could get caught in political cross-fire. A flotation at the end of this year looks a better bet.

A quick sale would help Renault draw a line under its unhappy alliance with Volvo, which floundered in part because of concern over the continuing involvement of the French state. A flotation would be a good opportunity for the Swedish motor group to exchange most of its 20 per cent stake *in Renault for the French company's* 45 per cent stake in Volvo Trucks. Renault will still need a partner to share the cost of developing future car models. One of the lessons of the Volvo saga is that this too may be easier once it is privatised.

Aluminium

Aluminium-producing countries *meeting in Australia this* week could be forgiven for feeling satisfied with their efforts to return the market to balance. Since production cuts were agreed at the end of January, the aluminium price has risen by about 25 per cent. It has regained the level prevailing in 1991 before imports from the former Soviet Union caused meltdown. Within the last month stocks held on the London Metals Exchange have *finally started to fall.*

With 2.5m tonnes of metal still held in LME warehouses, though, the equilibrium looks fragile. Most producers *are probably operating at a profit and* will not want to see the metal price driven substantially higher. Another spike upwards could discourage industrial users from using aluminium in place of other, less volatile, metals. But without the prospect of further appreciation, investors who bought aluminium for capital gains will have little incentive to hold on. There must be the danger of liquidations and a sharp price correction until the stock overhang has been reduced.

Since there seems little hope of bringing Middle Eastern and Latin American countries on side, progress in reducing stocks depends on the determination of western and Russian producers to stick to cuts already announced. Even though demand in the US and Europe has picked up faster than expected in January, consumption within Russia is still falling. Holding production down now that the price has recovered will require great discipline.

Pension funds

With a statutory solvency standard around the corner, pension funds are asking whether their assets are a fair match for their liabilities. Under the detailed rules being drafted by the actuarial profession, liabilities relating to younger members will continue to be matched with equities. Older liabilities will be measured against – and therefore best matched by – gilts. But given the reluctance of fund managers to lend the government more than is *absolutely necessary*, the search is on for alternatives.

Options contracts which guarantee funds the better of equity or gilt market returns are one possibility. Such contracts would match older liabilities for the purposes of solvency but leave *open the prospect of equity-style* returns. Yet even though derivatives markets are expanding, there is not nearly enough liquidity to allow all funds to cover themselves in this way. Investment banks also charge high premiums for such protection.

Assets which share some of the characteristics of equities and bonds could also attract interest. With their income linked to retail prices, for *example, utility shares in theory bear* some resemblance to index-linked bonds. But though utility shares tend to track gilts over short periods, the *similarities are unlikely to be suffi*cient to impress the actuaries. Apart for the regulatory risks, many utilities are trying hard to look more like equities by diversifying away from their regulated businesses. Most funds will find that the solvency regime leaves *no palatable alternative to buying* additional gilts.

FT WEATHER GUIDE

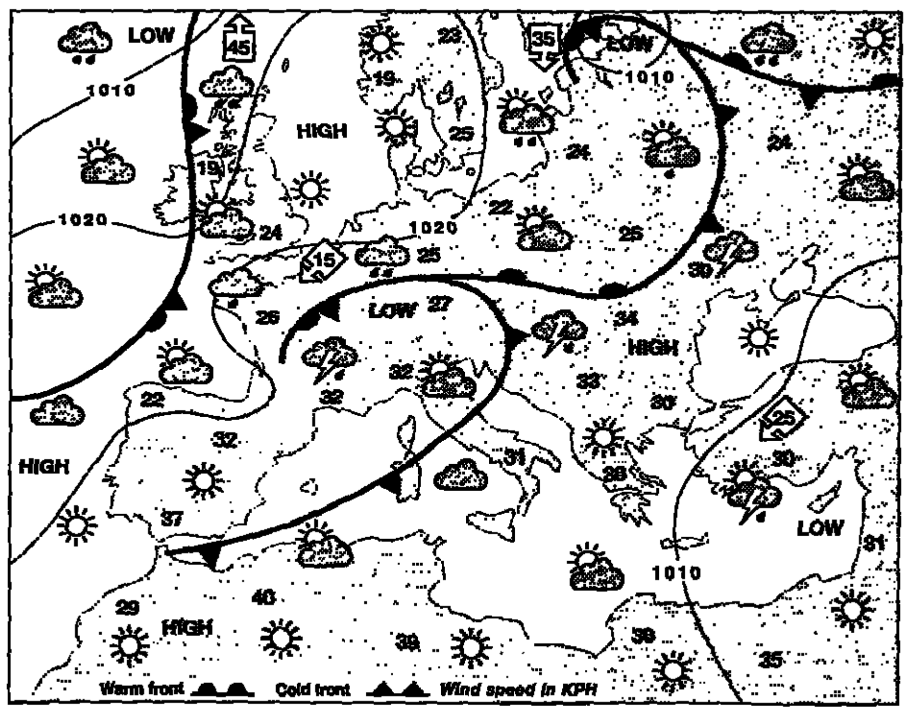
Europe today

Cloudy skies and outbreaks of rain and thunder will cover France as low pressure moves from west to east across the country. During the afternoon and evening, rain and thunder storms will spread into southern Germany, northern Switzerland and Austria bringing a risk of very heavy downpours in the Alps.

High pressure over the North Sea will cause fair and mainly sunny conditions in the Low Countries, northern Germany and western Scandinavia. However, some clouds will bring the possibility of a thunder storm in southern Belgium and Luxembourg. In the UK, it will also be sunny, *but in Ireland, it will be cloudy with* patches of rain. In southern Europe, it will remain sunny and warm. Across southern Turkey, scattered afternoon thunder storms will develop.

Five-day forecast

Clouds and rain will spread from northern France into southern Germany and Austria, with a serious risk of local flooding due to downpours. Later this week, rain and thunder *will move towards the south-east. Over the UK,* clouds will be variable with the most sun in the south-east of the country. The Low Countries, the northern half of Germany and western Scandinavia *will stay sunny.*



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
			Beijing	cloudy	32	Caracas	fair	27	Faro	sun	29	Madrid	sun	35	Rangoon	cloudy	31
			Belfast	drzzl	20	Cardiff	fair	22	Frankfurt	thund	29	Majorca	fair	34	Reykjavik	cloudy	14
Abu Dhabi	sun	39	Belgrade	sun	32	Casablanca	sun	28	Geneva	thund	28	Malta	sun	32	Rio	fair	24
Accra	thund	27	Berlin	fair	24	Chicago	fair	31	Gibraltar	sun	32	Manchester	sun	23	Rome	fair	32
Algiers	sun	36	Bermuda	fair	32	Cologne	fair	27	Glasgow	cloudy	21	Manila	rain	29	S. Frsco	sun	26
Amsterdam	fair	23	Bogota	fair	23	Dakar	cloudy	29	Hamburg	fair	22	Melbourne	fair	14	Seoul	fair	34
Athens	fair	33	Bombay	fair	33	Dallas	sun	37	Helsinki	rain	23	Mexico City	fair	19	Singapore	cloudy	32
Atlanta	sun	34	Brussels	cloudy	26	Delhi	fair	37	Hong Kong	shower	32	Miami	thund	34	Stockholm	fair	23
B. Aires	fair	21	Budapest	fair	32	Dubai	sun	41	Honolulu	fair	31	Milan	fair	31	Strasbourg	thund	28
B.ham	sun	24	C.hagen	fair	23	Dublin	cloudy	20	Istanbul	fair	29	Montreal	cloudy	23	Sydney	shower	16
Bangkok	cloudy	33	Cairo	sun	34	Dubrovnik	sun	31	Jakarta	fair	32	Moscow	thund	24	Tangier	sun	30
Barcelona	sun	29	Cape Town	fair	18	Edinburgh	fair	20	Jersey	drzzl	20	Munich	thund	26	Tel Aviv	sun	30
									Karachi	fair	32	Nairobi	cloudy	24	Tokyo	fair	30
									Kuwait	sun	45	Naples	sun	33	Toronto	fair	28
									L. Angeles	fair	28	Nassau	fair	32	Vancouver	fair	23
									Las Palmas	sun	26	New York	thund	30	Venice	cloudy	31
									Lima	cloudy	18	Nice	shower	29	Vienna	thund	29
									Lisbon	sun	29	Nicosia	fair	32	Warsaw	shower	24
									London	sun	26	Oslo	sun	27	Washington	cloudy	33
									Lux.bourg	thund	26	Paris	cloudy	28	Wellington	fair	9
									Lyon	shower	28	Perth	sun	21	Winnipeg	fair	26
									Madeira	fair	25	Prague	cloudy	25	Zurich	cloudy	26

FINANCIAL TIMES
COMPANIES & MARKETS

Monday July 18 1994

MARKETS THIS WEEK

RICHARD WATERS: GLOBAL INVESTOR
Political considerations will set the tone in some of the biggest investment markets in the Americas over the next few months. Mexico and Brazil are heading for presidential elections, while in Canada, a regional vote will once again raise the spectre of devolution for Quebec. **Page 21**

MARTIN WOLF: ECONOMIC EYE
The US insists that the environment be put on the agenda of the World Trade Organisation. Martin Wolf argues that this is just another case of rich country hypocrisy. If they want better environmental policies in poor countries, they should pay for them. **Page 21**

BONDS:
A more optimistic mood seems to have settled on the European bond markets. And while the factors responsible for the bear run remain in place, the relief may last for a while. **Page 22**

EQUITIES:
Currency factors have turned positive for UK equities, according to analysts, who also note that earnings ratios are low compared with other leading markets. In New York, investors are eagerly awaiting IBM's second-quarter figures due on Thursday. **Page 23**

EMERGING MARKETS:
Tuncay Artun, chairman of Istanbul's stock exchange, is putting a brave face on Turkey's troubles. But with interest rates edging down and the lira appreciating, the market may now be through the worst. **Page 23**

CURRENCIES:
If Alan Greenspan can convince markets that the Fed is on top of inflation, this could support the bond market rally and hence the dollar. **Page 29**

COMMODITIES:
A scheme to bring the aluminium industry back into balance after a period of soaring stocks will be reviewed this week at an international meeting in Canberra, Australia. Russia is believed to be well behind schedule with its promised cuts. **Page 21**

UK COMPANIES:
Mercury, the main UK rival to BT, is set for only modest growth in the next few years, according to a broker's survey of the spending intentions of 100 large business users. **Page 18**

INTERNATIONAL COMPANIES:
Hyundai, South Korea's largest conglomerate, is planning to expand into the steel market, but the government fears that the company's plans to build a steel plant by 1997 could lead to a glut in steel supplies and threaten the profitability of state-owned Pohang Iron & Steel. **Page 19**

STATISTICS

Directors quit Standard after bribe inquiry

By Simon Davies in London and Simon Holberton in Hong Kong

Two directors of Standard Chartered's bullion arm, Mocatta, one in London and one in Hong Kong, resigned after taking responsibility for the latest corruption scandal to hit the bank, it emerged yesterday.

This followed an investigation into bribes paid by Mocatta employees in exchange for business from junior civil servants at the central banks of both the Philippines and Malaysia.

It is a further embarrassment for Standard Chartered, which has built up a reputation for being accident prone. It recently announced the resignation of the managing director of its Hong Kong stockbroking arm, which was found guilty of illegal share support schemes.

Standard Chartered said the bribes took place last year, and appropriate action had been taken. A spokesman said: "We have properly reported our investigation to regulatory authorities, wherever appropriate."

This included Standard Chartered's primary regulator, the Bank of England, Hong Kong's Monetary Authority, and also Bank Negara, Malaysia's central bank, and the authorities in Manila.

A Standard Chartered official said these authorities appeared satisfied with the bank's investigation into the bribery allegations, and it was understood that no further action was likely. The Bank of England launches investigations only where there is a serious and immediate risk to depositors. "We regard the matter as closed," the official said.

The revelations come at a sensitive time for Anglo-Malaysian relations, which were rocked by more allegations that Wimpey offered bribes to senior Malaysian politicians, in exchange for contracts. A ban on handing out Malaysian government contracts to UK companies still stands.

The Malaysian link is also sensitive for Standard Chartered, since it has a substantial presence there, with 35 bank branches. Its south-east Asian operations (excluding Hong Kong), which are primarily focused on Singapore and Malaysia, made profits before bad debt provisions, of £166m last year. It has three offices in the Philippines.

It is understood that the sums involved at Mocatta were relatively small. "No one is living an extravagant lifestyle as a result," a Standard Chartered executive said, indicating that the bribes involved a few thousand pounds.

He added that the offering of small bribes was regarded as normal business practice in Malaysia and the Philippines, however, Standard Chartered had ensured that this attitude should not apply to its own operations.

Alcatel's chairman is optimistic in spite of a legal investigation and difficult European markets, write **John Ridding** and **Andrew Adonis**

A struggle to stay on track

These are critical times for Mr Pierre Suard, chairman of Alcatel Alsthom, who has built his telecoms, transport and engineering group into one of France's largest industrial concerns.

Earlier this month, the Alcatel chief was placed under investigation concerning allegations of fraud relating to payments for work at his Paris properties. Before that, Mr Suard found himself in the unfamiliar position of issuing a profits warning. In January, he forecast that Alcatel's net profits would shrink by between 10 and 20 per cent this year, the first decline since 1987 when the company's rapid expansion was launched with the acquisition of the European telecoms equipment operations of ITT of the US.

The purchase of Fiat's telecoms operations, aggressive exports, and a joint venture with GEC of the UK, which manufactures the high-speed Train à Grande Vitesse, have since fuelled the company's growth.

Has Alcatel been derailed by this year's events?

Sitting in the company's smart Paris headquarters, Mr Suard is unruffled. "I feel calm and confident," he says, referring to the investigation. As for business: "1994 is a difficult year ... but I am more optimistic than I was in January," he says, citing the success of the group's technical programmes and the economic recovery in some of its markets. Most industry analysts concur, predicting a return to profits growth in 1995.

Mr Suard is aggrieved by the legal wrangles, which included more than 12 hours of interrogation on July 4, before the announcement of a formal investigation. "I feel the events are a profound injustice," he says, firmly denying allegations that he underpaid company suppliers for building work worth about FFr440,000 ($82,450) at his former Paris residence. He says that the FFr300,000 worth of security work done at his home, also under investigation, was approved by Alcatel's board following express instructions from the government to tighten security after the 1986 assassination of Mr Georges Besse, then head of Renault.

Mr Suard claims there have been irregularities in the conduct of his investigation. "Some portions of the file under the control of the investigating judge appeared in the press on Wednesday [July 6], which is very improper and against the law." A stock exchange inquiry, demanded by Mr Suard, is examining the way that news of his detention was released. Shares fell by 8.3 per cent after his detention was revealed, although the losses have since been recouped.

The Alcatel chairman says that the investigation has not unduly disrupted his management. More serious, he believes, is the impact of the affair on the image of the group as it battles for overseas contracts.

This is of particular concern as the company struggles to adjust to a fall in earnings and a deterioration in some markets – particularly for telecommunications equipment, its largest sector.

"Alcatel, like other telecoms equipment groups, is confronted by the fact that traditional digital switching systems and transmission markets have shrunk in absolute terms and more in margin terms," says Mr Evan Miller, European telecoms analyst at Lehman Brothers.

Alcatel has not been a laggard in new markets, either in terms of geography or technology. According to Dataquest, it vies with Nokia and Motorola for second place in the European infrastructure market for new mobile phone networks built to the international GSM standard. Alcatel established itself in China, the world's fastest-growing telecoms market, before many of its competitors, and this year expects to sell China 7m lines of switching equipment – more than for the whole of Europe.

The company has also made notable acquisitions in Europe and the US. Three years ago it acquired the transmission division of Rockwell of the US, and

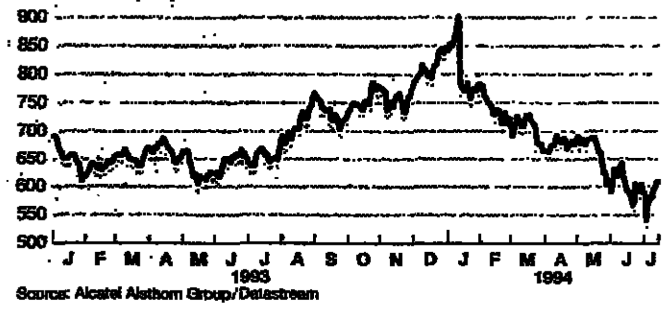
Continued on Page 19

Alcatel Alsthom: a turn for the worse

Pierre Suard chairman

(FFr billion)	1989	1990	1991	1992	1993	1994
Sales	143.90	144.05	160.08	161.68	156.33	-
Capital expenditure	6.86	6.99	7.82	7.00	6.49	-
R&D expenditure	10.85	12.14	14.74	15.12	15.24	-
Net income	3.90	5.03	6.18	7.05	7.06	5.6-6.4*

*Company has warned of 10-20% fall in income this year



Source: Alcatel Alsthom Group/Datastream

Opec members targetted in futures drive

By Robert Corzine in London

International banks and commodity exchanges have launched a concerted effort to persuade big petroleum producing countries to use futures contracts and forward sales of oil to hedge against sharp falls in oil revenues.

A number of separate approaches are being made to producers, with members of the Organisation of Petroleum Exporting Countries at the top of the target list.

The International Petroleum Exchange in London says it has been encouraged by recent contacts with Opec members. Mr Peter Wildblood, chief executive, says "producing countries want to understand better how the market can be used."

Although no Opec member has so far committed itself to a hedging programme, Mr Wildblood believes it will only be a matter of time before one does.

The IPE is stressing to producers that use of the futures' markets can give them better control over their national budgets in a period of oil price volatility.

It cites the example of Mexico, a non-Opec exporter which initiated a hedging programme in 1990-91. It cost about $200m to implement but saved the country about $800m when world oil prices fell.

Many Opec members have had to make sharp budget cuts over the past 18 months, as prices fell from around $20 a barrel at the start of 1993 to a low of about $13 last February.

They have since rallied to around $18 a barrel, but cumulative Opec revenues in May, for example, were still more than $10.5bn, or 19 per cent lower than cumulative reviews a year earlier, according to the International Petroleum Finance Company in Washington.

Mr Wildblood concedes that officials in some Opec states still view futures markets as centres of speculation and "the work of the devil". But he counters that 80 per cent of the IPE volume is accounted for by oil companies and other industry-related institutions. "There is very little speculative interest."

Another scheme which is being promoted in Opec capitals is based on the present sale for cash of oil for future delivery.

Mr Ibrahim Kamel, an Egyptian banker and politician who heads the Jersey-based Petroleum Securities Corporation, said forward sales would be packaged as a negotiable security known as a petroleum delivery certificate that would carry a fixed return. He said the cash raised by such sales, in the range of $500m to $2bn, would fund energy infrastructure projects in the selling country. Another national petroleum company would act as a delivery guarantor.

Investment bank Morgan Grenfell and Nomura, the Japanese securities house, are understood to be considering participating in the programme.

Those advocating Opec's use of futures markets or forward sales claim they would have little impact on long-term prices.

Officials at Opec's headquarters in Vienna confirm that they are making a detailed study of the oil futures' markets. But they say the exercise is to evaluate the impact of the futures markets on real prices, and not to prepare Opec producers for using them.

This week: Company news

US BANKS

Mild recovery expected in trading revenues

With net interest margins largely unchanged, this week's second-quarter figures from leading US money centre banks will turn in large part on how well they have coped with trading in unsettled foreign exchange and fixed income markets.

Trading revenues are generally expected to recover from the poor first quarter, but lag average 1993 quarterly income by some 25 per cent. However, as JP Morgan proved last week, the numbers remain volatile: even without taking any big hits, the bank reported trading income below the first quarter and less than half the quarterly levels of 1993.

The greatest year-on-year earnings advances are likely to come from banks that have continued to recover from past credit problems.

Most analysts forecast earnings per share for Citicorp at about $1.22 (up from 82 cents) and BankAmerica at $1.31 ($1.19) – the latter an indication that the Californian economy has finally begun a recovery from its three and a half years of recession.

Regional banks, meanwhile, should see stronger earnings growth as a group, with accelerating loan demand and little change in the net interest margin, despite higher US interest rates.

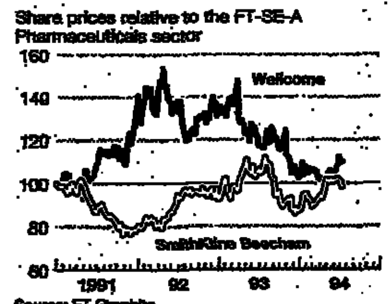
If rising interest rates have an effect, it is likely to be on the earnings of banks that have used interest rate swaps to boost their margins in the past.

Foremost of these is BancOne, which in recent periods has boasted a net interest margin of more than 6 per cent but is expected to see this fall fast (in part due to falling margins on credit cards).

BancOne's second-quarter earnings per share are expected to be level with the previous quarter and a year before, at 81 cents.

UK pharmaceuticals

Share prices relative to the FT-SE-A Pharmaceuticals sector



Source: FT Graphite

SMITHKLINE BEECHAM/WELLCOME

Tagamet will be a hard act to follow

Two of the UK's biggest drugs groups report this week. Tomorrow, SmithKline Beecham announces results to June 30. Analysts expect pre-tax profits for the second quarter at between £272m and £282m ($428.6m), against £257m before exceptionals.

Most attention will be given to the plight of Tagamet, the anti-ulcer drug which was formerly the group's biggest product and whose US patents expired on May 17. The progress of newer products, such as Paxil, an anti-depressant, will be scrutinised.

Questions will also be asked about problems at the clinical laboratories businesses in the US, which have traditionally been profitable, but have run into difficulties with the more cost-conscious healthcare environment.

On Thursday, Wellcome reports four-month figures to June 30. The company is changing its year-end from August to December. Analysts will therefore be focusing on underlying sales growth.

Last year, such growth was disappointing, including sales of Zovirax, Wellcome's biggest product. The destocking that affected sales in the US should have worked its way out. Expectations for Zovirax are for a 10 per cent rise.

Analysts will also be looking for signs that the sales decline in Retrovir, the HIV and Aids treatment, may be bottoming out.

OTHER COMPANIES

Cost-cutting may give oil majors an edge

When the US majors report second-quarter figures (Amoco and Texaco are expected at the end of this week, with Exxon and Chevron shortly after), it will be against a markedly different backdrop from three months before.

Oil prices have jumped, though perhaps too late in the period to have a great effect, gas prices have slid, and refining margins have tumbled.

What earnings gains emerge will largely come from cost-cutting. Paul Ting, an analyst at Oppenheimer in New York, forecasts earnings per share declines particularly at Exxon (69 cents compared with 87 cents in the previous quarter), Texaco (60 cents, down from 69 cents) and Chevron (falling to 50 cents from 65 cents, due to poor refining margins in the US). Better news, he says, will come from cost-cutting or restructuring at Amoco (up from 74 cents in the first quarter of the year, to 79 cents) and Mobil (at $1.25 a share, a little weaker than the $1.31 of the first period).

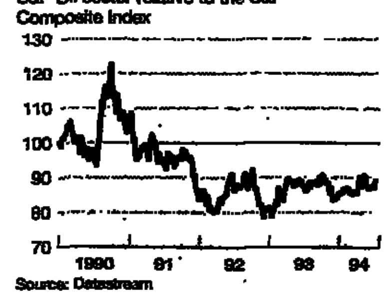
■ **Finmeccanica:** The Italian state-controlled engineering and defence group today launches what amounts to a partial privatisation of the company, through a L1,700bn ($1.1bn) rights issue. The issue – priced at L2,100 a share – will reduce the stake of IRI, the state holding company, from 85 per cent to less than 60 per cent. The proceeds will be used to reduce debts and help pay for the acquisition of formerly state-owned defence interests.

■ **Waste Management International:** The UK-based environmental services group today reports second-quarter figures, which are expected to show continued growth despite the impact of the recession in continental Europe. Analysts are looking for pre-tax profits to rise from £37m ($56m) in the same period last year to between £40m and £44m.

■ **David S Smith:** The UK-based paper, packaging and office supplies group is expected to report a continued recovery in profits when it announces annual figures on Wednesday. Although first-half profits were down, analysts forecast that the full-year pre-tax figure will have risen from £27.1m to between £33m and £35m ($53.2m). But earnings per share will show little change.

US oils

S&P Oil sector relative to the S&P Composite Index



Source: Datastream

Companies in this issue

Competition may hit Mercury

By Andrew Adonis

Mercury, the main rival to British Telecommunications, is being "squeezed from all sides" and is set for only modest growth in the next few years, according to a broker's survey of 100 large business users.

The survey, by James Capel, finds that after six years of rapid growth at the expense of BT in the large corporate sector, Mercury has now reached a plateau in terms of the spending intentions of companies.

The 100 companies, representing about 10 per cent of the large corporate market by value, are at the heart of Mercury's existing business.

Their average telecoms spending is projected at more than £3m this year, with Mercury expected to take a 22 per cent share, far ahead of the 13 per cent it is estimated to have of the total UK telecoms market.

The companies surveyed were strongly attracted to new telecoms operators such as Worldcom, MFS and Sprint, licensed since the abolition of the BT/Mercury duopoly in 1991, which are focusing on the large business sector.

A year ago, only 14 per cent of the companies used telecoms carriers other than BT and Mercury. This year 28 per cent do so, with a further 18 per cent claiming to be very or quite likely to use another carrier.

Nearly 80 per cent of the companies claimed to be Mercury users, Mercury's highest rate to date, with another 10 per likely to subscribe.

But four in five existing users said they used Mercury mainly for cost savings, against only 10 per cent naming quality, suggesting that its market is highly vulnerable to competition.

"Competition is squeezing Mercury from all sides", said Mr Martin Mabbutt, telecoms analyst at James Capel. "The growth of new operators in the business sectors is eroding margins in its areas of historic strength."

He added: "Over the next few years the company seems set to pay the price for a low level of penetration of the residential market."

In spite of rapid progress in the past year, Mercury has only about 1m residential customers, against BT's 20m.

A large proportion of these users are connected through local cable operators, many of whom are prepared to switch their long-distance traffic to other carriers if they can get a better price.

Mercury has responded with initiatives to improve its network quality and its access to residential customers.

A £200m upgrading of its national network is under way, and it is experimenting with radio technology as a means of by-passing BT and cable operators at the local level.

However, some analysts see other recent moves as evidence of its predicament.

It is engaged in an acrimonious battle with Oftel, the industry regulator, to secure a more favourable regulatory regime.

It also began negotiations with AT&T, the largest US operator, for an alliance, but drew back at a late stage.

BET settles pay-off for director at £450,000

By William Lewis

Mr Bob Mackenzie, who on Friday left his post as finance director of BET, is to receive a pay-off of about £450,000, according to sources in the business services group.

The settlement, which is substantially higher than earlier reports, could anger institutional investors who are beginning to take a tough stance on large pay-outs to directors.

Insiders say the size of the pay-off was due mainly to the three-year rolling service contract which Mr Mackenzie signed in November 1991. It guaranteed him three years' notice from BET.

Mr Mackenzie's basic annual pay was increased to £222,000 this year, theoretically entitling him to a £666,000 pay-off. However, he appears to have settled for a package equivalent to two years' basic salary. BET says it will disclose the exact amount in next year's annual report.

The development follows BET's decision to appoint Mr Keith Payne, who joined the main board last year as director of strategic planning, to the post of director of finance, planning and development.

Mr Mackenzie said on Friday that his resignation was "mutually agreed" with BET. He wanted "to explore other opportunities" but would be staying on as a consultant to BET until December.

Last month Mr Alastair Ross Goobey, PosTel's chief executive, in an attempt to reduce pay-outs to directors, announced a policy of voting against the re-election of directors with rolling contracts longer than two years.

Two BET directors have three-year rolling service contracts – Mr John Clark, chief executive, and Mr John Allan, marketing director, who earns a basic salary of £178,500. Mr Payne has a two-year rolling contract and basic salary of £184,000.

Mr Clark's basic salary is £396,000. He also has the potential to earn a bonus of up to £237,600 through a management incentive plan.

Profits of more than £1bn seen for Lloyd's in 1993

By Richard Lapper

Lloyd's of London can expect to make comfortable profits in 1993 and for the next three years and investors should buy shares in a number of the listed Lloyd's investment trusts formed last year, a securities firm argues.

Mr Nick Bunker, analyst with Hoare Govett UK Investment Research, predicts pre-tax profits of £1.09bn in 1993. However, the figure will be reduced by additional provisions for past losses, stemming mainly from US asbestosis and pollution related claims.

Mr Bunker expects "headline" pre-tax profits to decline thereafter, to £810m in 1994, £739m in 1995 and £155m in 1996, thanks to a number of factors including the Los Angeles earthquake in January this year, losses from which are expected to cost Lloyd's $700m (£460m).

In addition, losses from shipping and aviation are expected to rise, while premium rate competition will intensify.

The forecasts, the first medium term assessment of the market's prospects, were calculated on the basis of eight computer models.

The research stresses "these forecasts have been struck conservatively, on the basis of assumptions which are set out explicitly and in full". In particular Hoare Govett does not expect any upturn in rates for US casualty business.

The relatively upbeat forecast follows five years of record breaking losses.

Most recently Lloyd's announced a deficit of £2.1bn for the 1991 underwriting year, bringing its total losses since 1988 to more than £7bn.

Losses are also expected for the 1992 underwriting year, when results are reported next year.

Hoare Govett says that in some sectors of the market, notably in marine business, returns will be very high by historic standards, and that therefore, "signs of rate reductions in some areas this year should not be surprising or necessarily worrying".

The forecasts assume that Lloyd's can finance the creation of NewCo, the reinsurance company into which it aims to transfer all liabilities stemming from 1986 and earlier.

Difficulties of buy-outs at recs

Regional electricity companies would make suitable candidates for leveraged buy-outs, though there would be political and regulatory risks, according to analysts at Hoare Govett, *writes David Lascelles.*

In a report on the prospects for LBOs at the privatised electricity companies, the analysts say they enjoy monopoly profits on their distribution businesses and strong cash flow, which would support buy-outs.

The expiry of the government's golden shares next March will also aid increased corporate activity by the recs.

But they also question whether investment banks would be willing to arrange an LBO for a regulated utility which was heavily dependent upon regulatory decisions, and might become prone to political decisions as the next election approaches.

In addition, the recs' shareholding in the National Grid Company would have to be unscrambled before any LBOs could take place.

The analysts conclude: "Despite their strong financial attractions, we question whether recs will become the subject of LBOs."

Italian trust launch postponed

By Scheherazade Daneshkhu

Carnegie International, the securities firm, has postponed the launch of the Italian Renaissance Investment Trust, despite raising more than the minimum fund size of £20m.

The trust, to be managed by Fondigest, the Italian mutual fund manager, would have been the UK's first single-country investment trust specialising in Italy.

Carnegie said that the placing had raised £25m. The offer had been capped at £100m, but it was realistically expecting to raise between £35m and £50m in all.

It cited "adverse market conditions" as the main reason for postponing the launch. But the trust's directors "were especially concerned that the initial price at which the new shares would trade would not fairly reflect the prospects for Italian medium and smaller sized companies", in which the trust was to have specialised.

Records were set earlier this year for the amount of money raised by new investment trust issues, but markets have been more nervous since the first rise in US interest rates in February. The average discount to net asset value hit its narrowest point in January, but has since widened.

In May, Murray Johnstone, the UK fund management company, postponed the launch of a UK smaller company investment trust because of doubts over the level of investor demand.

However, Schroder's new Japanese investment trust was oversubscribed earlier this month.

Carnegie said that "provided that interest in investment trust new issues recovers" the trust would be launched in the autumn.

HK company reverses into Beverley

By Joel Kibazo

The Hong Kong-based Far East Consortium International is set to gain a control of Beverley Group, the engineering concern previously known as Petrocon, in a deal that will give it a stake of more than 70 per cent in Beverley.

FEC is to sell its Vicco Development subsidiary to Beverley for about £9m to be satisfied by the issue of new shares. The Takeover Panel has waived the requirement for FEC to make a full offer

Vicco's principle asset is a 51 per cent holding in Guangzhou Pegasus, a company based in China which is engaged in the design, manufacture and marketing of boilers for the Chinese market.

Mr Colin Robinson, chairman of Beverley, acknowledged that FEC was to gain control of the company but said its present management would remain in place. "This gives us an enormous opportunity for entry into the Chinese market."

News of the takeover came as the group's report and accounts for the year to December 1993 were qualified by itsauditors before being posted to shareholders at the weekend.

Solomon Hare, the auditors, said the group had been "unable to provide confirmation that it will have sufficient facilities to cover future working capital". However, Mr Robinson said, the deal with FEC would "sort that out".

Beverley last month reported increased pre-tax losses of £2.67m.

Hopkinsons sells subsidiary to managers for £4.56m

Hopkinsons, the industrial abrasives and engineering group which in April reported a 69 per cent decline in pre-tax profits, has sold its England-Worthside drinks equipment subsidiary in a £4.56m management buy-out.

The purchasers are Mr Trevor Hicks and Mr Tony Clarkson, managing and sales directors of England-Worthside, operating as Closerate, a company in which they together have a majority interest.

The consideration is payable in cash. Closerate will also assume responsibility for any bank overdrafts of England-Worthside. Inter-company indebtedness of £432,000 will be repaid on completion.

The buy-out is backed by 3i, the investment capital group. The managers have raised £6m for the buy-out and to meet on-going funding requirements.

England-Worthside makes hand pull beer pumps and distributes drinks dispensing equipment. It produced a pre-tax profit of £858,000 in 1993, on turnover of £5.17m.

The disposal is being made to allow Hopkinsons to concentrate on its abrasives, engineering, plastic injection moulding and drainage businesses.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Ontario Quinta (Canada/Chile)	Edelsur (Peru)	Electricity	£138m	Part of Peru privatisation
Mattel (US)	JW Spear (UK)	Toys	£62m	Beats off Hasbro
John Waddington (UK)	Imca (Netherlands)	Packaging	£42m	Pan-European move
Kitty Little (UK)	Groupe L'Amy (France)	Optical equipment	£8.9m	Further expansion possible
Electrolux (Sweden)	Refripar (Brazil)	Electrical appliances	£6.5m	Taking 6% stake
Metroplex (Malaysia)	Subic Bay Resort (Hong Kong)	Hotels	£6m	Raising stake to 85%
Forte (UK)/Repsol (Spain)	JV	Catering	£3m	Little Chef venture
Select Appointments (UK)	Reliance Resources (Canada)	Business services	£2.6m	Continuing overseas growth
ITT (US)	Ciga (Italy)	Hotels	n/a	Taking effective control
Immetal (France)	Lonza Graphites (Switzerland)	Chemicals	n/a	Alusuisse-Lonza disposal

Full branch in Beirut for ING

By Mark Nicholson in Cairo

Internationale Nederlanden Bank (ING), based in Amsterdam, has won authorisation from Lebanon's central bank to establish a full branch in Beirut – the first such approval granted in 25 years and a sign of Lebanon's desire to revive the country's lost role as a banking and financial centre.

ING promises to be only the first of several new international arrivals in Beirut, with a number of French and British groups also pursuing licences to open either representative offices or branches in Lebanon.

Mr Riad Salame, the central bank governor, described the decision to accord authorisation to ING as a "major change in our policy".

Foreign banks were previously told they must buy a local institution to participate fully in the domestic market. But in a drive to attract new foreign institutions, the central bank is now permitting banks to open a branch in the country, provided they meet a capital requirement of $5m and reinvest 30 per cent of locally-collected deposits domestically.

Foreign newcomers will be restricted to a single branch, but otherwise will have no conditions on their operations.

ING's authorisation is the first granted since well before Lebanon's crippling 17-year civil war and was made despite strong opposition from its 50 domestic commercial banks, which believe they should be given time to recover from the war's ravages before new entrants are allowed into the local market.

ING Bank will join 15 or so foreign banks long established in Beirut, including Citibank, American Express Bank and Chase Manhattan Bank.

A spokesman for ING in Amsterdam said he expected the branch to begin operations within a couple of months. It will become ING's sole Middle East branch and would concentrate on international payment transfers, corporate banking and trade finance, the spokesman said.

Lebanon's central bank this week also authorised UBAF, the London-based group owned by Arab and French banks, to set up a representative office in Beirut.

In addition, Banque Paribas, the French merchant bank, has submitted a request to open a branch of its London-based Paribas Capital Markets unit in Beirut, which the bank says will seek a seat on Lebanon's renascent stock market.

This is presently limited to trading in Treasury bills and shares of Solidere, the property development company created to rebuild central Beirut – itself part of the government's ambitious plan to regenerate Lebanon as a financial centre.

Robert Fleming, the British investment bank, is also applying for a licence to open a Beirut representative office.

The bank says it is looking to establish a regional base in Lebanon eventually to serve also Jordan and Syria, but with a more immediate eye on the development of Lebanon's stock market, the creation of local mutual funds and corporate finance.

Robert Fleming says that it hopes a Beirut operation would complement its 10-year-old branch in Bahrain, which the bank says is the sole British merchant banking branch in the Gulf.

Chinese accounting causes concern

Fewer than half of the companies listed on China's nascent stock exchanges are said to have presented acceptable annual reports for 1993, with some submitting inaccurate accounts to regulators, Reuter reports from Beijing.

A spokesman for the China Securities Regulatory Commission said only 75 of 169 reports received from listed companies met the commission's standards.

Even though the deadline for submitting 1993 accounts was June 30 this year, 14 companies still have not done so and risk punishment, China's official Xinhua news agency reported.

The commission warned that companies submitting false accounts could be suspended from doing business.

Many foreign investors eager to take part in China's economic boom by buying into listed companies are worried about lax accounting standards that make it difficult to evaluate properly an enterprise's profitability.

The commission's report on the companies' annual accounts appeared to bear out the worries. Some of the companies failed to account for funds raised through their public offering, Xinhua said.

"Some public companies' reports lacked important information such as the operation of their capital," the China Daily newspaper said in a weekend report.

Some reports gave no explanation of big gaps between their profit forecast and actual business performance.

"A limited number of companies gave inaccurate statements in their reports," the newspaper said. "Some changed their profit forecasts, while others gave deceitful financial indices."

Boards of directors of companies with suspect reports must provide answers to the commission within a set time, Xinhua said.

The 14 companies who failed to present reports at all must make public self-criticisms, and may be punished further if they still do not submit accounts.

Hyundai plans Won600bn investment in steel plant

By John Burton in Seoul

Hyundai, South Korea's largest conglomerate, is planning to enter the steel sector with the construction of a plant by 1997.

The project, however, is being opposed by the government, which fears it would cause a glut in steel supplies and threaten the profitability of state-owned Pohang Iron & Steel, the country's dominant steel producer and the world's most profitable steel company.

Hyundai Pipe said it planned to invest Won600bn ($743m) in a steel plant to produce 1.3m tonnes of cold-rolled coils annually for Hyundai car, shipbuilding and transport equipment subsidiaries.

Production of the plant, which will be built in either Ulsan or Pusan in south-eastern Korea, will be later expanded to 2.3m tonnes.

Hyundai plans to purchase production facilities from Japan or Germany, with plant construction to begin in 1996.

The government believes the announcement is only the first stage of a bigger Hyundai project to build facilities that could produce 10m tonnes of steel, resulting in an oversupply.

The ministry of trade, industry and energy says Korea will suffer a steel demand shortfall of 1.5m tonnes by the year 2001, which could easily be covered by imports.

But Hyundai says the government has underestimated domestic demand for steel. It predicts that the growth of the manufacturing and chemical industries and increased use of steel for the construction of buildings and bridges will increase steel demand. Any excess steel supplies could be sold to China, it adds.

The government may try to block Hyundai's steel project by denying a land acquisition licence for the steel plant and barring the import of steel production facilities. It may also cite environmental grounds.

● Samsung, the South Korean conglomerate, has acquired control of Korea Fertilizer, the state-controlled fertiliser and specialty chemicals company, in one of the country's biggest privatisation sales.

Samsung bid Won230bn, almost twice the expected auction price, to increase its stake in Korea Fertilizer to 67 per cent from 32.4 per cent by acquiring the shareholding of state-owned Korea Development Bank.

Samsung retained a minority stake in the company after being forced to give up management control of Korea Fertilizer to the then military government in 1967. Korea Fertilizer reported net profits of Won5bn on sales of Won211.6bn last year.

Samsung said it hoped to increase the company's turnover to Won1,300bn by 2000 by expanding its specialty chemicals business through a Won1,000bn investment programme.

Munich bank expands in Hungary

By Nicholas Denton in Budapest

Bayerische Landesbank, the Munich-based regional bank, is paying Ft5.8bn ($56m) for a stake in Kulkereskedelmi Bank, Hungary's fourth largest bank.

BLB is taking a 25 per cent stake with the London-based European Bank for Reconstruction and Development taking a further 17 per cent.

The Munich bank is the first western bank after the Dutch ING to take part in a significant east European bank privatisation. ING took a stake in Bank Slaski in Poland but most international banks prefer stand-alone branches in the former communist bloc.

The acquisition of a Hungarian bank accords with BLB's drive to expand in central Europe. In the past two months, it has emerged that BLB is forming a joint-venture building society in the Czech Republic, taking a stake in a savings bank in Bolzano in northern Italy and exploring an investment in Austria's troubled GiroCredit.

JP Morgan, the US investment bank, acted as adviser to the Hungarian government and Kulkereskedelmi Bank.

South Korean banks lift profits

By John Burton

The combined net profits of South Korea's 24 commercial banks rose by 15.4 per cent to Won533bn ($660m) during the first half of 1994, according to the Office of Bank Supervision.

The advance in profits was mainly due to the sale of securities, but a 123 per cent increase in bad loan provisions to Won1,483.5bn limited the rise.

Cho Hung Bank reported the largest net profits, with an increase of 150 per cent to Won120.9bn.

Korea First Bank, which has recorded the biggest bank profits for the past three years, had net earnings of Won82bn, a rise of only 1.4 per cent.

The Bank of Seoul had the sharpest rise in earnings, to Won24.7bn from Won800m, following the sale of its securities subsidiary.

Commercial Bank of Korea, which also sold its securities operations, recorded a 59.6 per cent earnings increase to Won15.8bn.

Hanil Bank reported a 8.3 per cent increase in net profits to Won69.3bn, and Korea Exchange Bank achieved a 64.3 advance in earnings to Won68.2bn.

Among the smaller national banks, Shinhan, which has the banking industry's largest profit margins, reported a 28.7 per cent growth in net profits to Won70.4bn.

Donghwa Bank suffered a 71 per cent downturn in net profits to Won2.9bn, while earnings for Boram Bank also showed a decline, by 21.3 per cent to Won5.5bn.

Dongnam Bank reported a loss of Won94bn, and Daedong Bank had a deficit of Won55bn.

Canadian wheat pool to go public

By Bernard Simon in Toronto

The Saskatchewan Wheat Pool, the biggest of Canada's prairie farm co-operatives, is to convert to a listed public company.

The Pool, with 1993 revenues of C$1.62bn (US$1.18bn), plans a share offering early next year and will be listed on the Toronto Stock Exchange.

Its 60,000 members will initially convert their equity into shares, some of which may be offered to the public. However, farmer-members will continue to control the pool by being the sole holders of class A voting shares. No single shareholder will be allowed to own more than 10 per cent of class B non-voting shares.

The Pool was formed in 1924 to handle Saskatchewan's grain crop. But about 40 per cent of last year's C$3.5m profit came from non-grain businesses. The Pool's recent diversifications have included natural cosmetics (with a sizeable export market in Japan), pie fillings and a food-preserving process.

The move to go public has been a controversial one. Critics have noted that the Pool was formed to make farmers more independent of commercial grain companies.

But members have recently been swayed by arguments that the Pool needs to strengthen its resources to respond to far-reaching structural changes in North American agribusiness. For example, the North American free trade agreement and the Uruguay Round are expected to open the Canadian grain market to competitors.

Almost half the Pool's members are over 55 years old and are expected to withdraw their equity as they retire over the next 10 to 15 years.

A struggle to stay on track

Continued from page 17

claims now to be the second-largest supplier of telecoms cables in the US.

The group's undersea cables division has been boosted by last year's acquisition of STC, the UK-based submarines cables division of Northern Telecom of Canada.

"We are maintaining our research and development effort to be competitive in tomorrow's products," says Mr François de Laarge de Meux, chief operating officer. He cites the companies leading-edge technology in land and submarine fibre-optic cables, in SDH – the next generation of line transmission technology – and in broadband telecoms switches. The big pay-off, claims Mr Suard, will come with the development of multimedia networks and fibre-optic superhighways. "We have been preparing for several years, for example in the areas of broadband transmission. It is at the centre of our strategy."

However, weaknesses are also evident, even in leading-edge markets. In the cellular infrastructure market, Alcatel is not only behind Ericsson, the Swedish supplier, but is regarded by many analysts and operators as inferior to Nokia, the fast-growing Finnish company, in terms of products and customer-responsiveness.

In its traditional switching and transmission markets, its prime weaknesses have been in Italy, Spain and, in particular, Germany. Mr Jozef Cornu, Alcatel's technical director, accepts that the German operations will suffer a loss in 1994, although he believes a return to profit can be achieved in 1995.

"There has been a radical change in the German market," says Mr Cornu. Demand has contracted, with investment in eastern Germany no longer offsetting the downturn in the western regions. Another aspect of the malaise, says Mr Cornu, is a policy shift by Deutsche Telekom, the German state telecoms operator, in the direction of international specifications and tenders for its supplies, leading to increased competition and reduced prices.

Alcatel has responded with a series of restructuring efforts, including the closure of a plant in Stuttgart. But even if cable demand picks up on the back of "superhighways", the more open procurement policies which are costing Alcatel dearly in Germany can only extend further to the company's disadvantage. Deutsche Telekom is about to be privatised; France Telecom and other European operators are bound to follow. In every case, cosy relationships will break down – and the main losers are likely to be established suppliers such as Alcatel and Siemens of Germany.

Much rests on Alcatel's ability to build the superhighways and supply the other artefacts – from advanced switches to mass mobile phones – which will be integral to 21st century communications.

Can they do it? "In terms of product lines, they are second to none," says Mr Miller of Lehman. "Their frustration is that it isn't happening yet."

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, July 15, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Country	Currency	£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	4050.80	2599	1670.57	2654.7
Albania	(Lek)	155.80	99.9615	64.2527	102.104
Algeria	(Dinar)	59.3827	38.1	24.4897	38.9165
Andorra	(Fr Fr)	8.3218	5.3392	3.4319	5.4536
	(Sp Peseta)	200.358	128.55	82.6266	131.305
Angola	(New Kwanza)	146577.5	94044.3	60449.3	96058.7
Antigua	(E Carr $)	4.2068	2.6989	1.7348	2.7567
Argentina	(Peso)	1.5557	0.9981	0.6415	1.0195
Aruba	(Florin)	2.7988	1.7892	1.1501	1.8276
Australia	(Aus $)	2.1216	1.3612	0.8749	1.3903
Austria	(Schilling)	17.0589	10.945	7.0351	11.1795
Azores	(Port Escudo)	249.688	160.2	102.973	163.633
Bahamas	(Bahama $)	1.5586	1	0.6427	1.0214
Bahrain	(Dinar)	0.5877	0.377	0.2423	0.3851
Balearic Is	(Sp Peseta)	200.358	128.55	82.6266	131.305
Bangladesh	(Taka)	61.5647	39.5	25.3895	40.3464
Barbados	(Barb $)	3.1336	2.0105	1.2923	2.0536
Belgium	(Belg Fr)	50.0155	32.09	20.6266	32.7777
Belize	(B $)	3.1160	1.9992	1.285	2.042
Benin	(CFA Fr)	832.180	533.928	343.195	545.37
Bermuda	(Bermudian $)	1.5586	1	0.6427	1.0214
Bhutan	(Ngultrum)	48.8874	31.3662	20.1614	32.0384
Bolivia	(Boliviano)	7.2319	4.6399	2.9824	4.7394
Botswana	(Pula)	4.3115	2.7662	1.778	2.8255
Brazil	(Real)	1.4526	0.9319	0.599	0.9519
Brunei	(Brunei $)	2.3574	1.5125	0.9722	1.5449
Bulgaria	(Lev)	83.80	53.7662	34.5595	54.9184
Burkino Faso	(CFA Fr)	832.180	533.928	343.195	545.37
Burma	(Kyat)	9.0600	5.8129	3.7363	5.9374
Burundi	(Burundi Fr)	388.99	249.577	160.421	254.925
Cambodia	(Riel)	5453.00	3498.65	2248.85	3573.63
Cameroon	(CFA Fr)	832.180	533.928	343.195	545.37
Canada	(Canadian $)	2.1459	1.3768	0.8849	1.4063
Canary Is	(Sp Peseta)	200.358	128.55	82.6266	131.305
Cp. Verde	(CV Escudo)	131.519	84.3827	54.2391	86.1911
Cayman Is	(CI $)	1.2776	0.8197	0.5268	0.8372
Cent.Afr. Rep	(CFA Fr)	832.180	533.928	343.195	545.37
Chad	(CFA Fr)	832.180	533.928	343.195	545.37
Chile	(Chilean Peso)	654.067	419.65	269.741	428.643
China	(Yuan)	13.4709	8.6429	5.5554	8.8281
Colombia	(Col Peso)	1279.81	821.128	527.8	838.725
CIS $	(Rouble)	1.0185o	0.6535	0.42	0.6675
		3148.60m	2018.99	1297.76	2062.26
Comoros	(CFA Fr)	832.180	533.928	343.195	545.37
Congo (Brazz)	(CFA Fr)	832.180	533.928	343.195	545.37
Costa Rica	(Colon)	244.107	156.619	100.671	159.978
Côte d'Ivoire	(CFA Fr)	832.180	533.928	343.195	545.37
Croatia	(Kuna)	8.9549	5.7454	3.693	5.8686
Cuba	(Cuban Peso)	1.1800	0.757	0.4866	0.7733
Cyprus	(Cyprus £)	0.7407	0.4752	0.3054	0.4854
Czech Rep.	(Koruna)	43.6190	27.984	17.9874	28.5837
Denmark	(Danish Krone)	9.5307	6.1149	3.9305	6.2459
Djibouti Rep	(Djib Fr)	276.80	177.659	114.195	181.467
Dominica	(E Carib $)	4.2068	2.6989	1.7348	2.7567
Dominican Rep	(D Peso)	20.3475	13.0549	8.3914	13.3347
Ecuador	(Sucre)	3212.60o	2061.21	1324.89	2105.38
		3401.50s	2182.41	1402.8	2229.18
Egypt	(Egyptian £)	5.2735	3.3834	2.1748	3.4559
El Salvador	(Colon)	13.6169	8.7366	5.6156	8.9236
Equat'l Guinea	(CFA Fr)	832.180	533.928	343.195	545.37
Estonia	(Kroon)	19.2904	12.3767	7.9554	12.6419
Ethiopia	(Ethiopian Birr)	8.5534	5.4878	3.5274	5.6054
Falkland Is	(Falk £)	1.00	0.6416	0.4124	0.6553
Faroe Is	(Danish Krone)	9.5307	6.1149	3.9305	6.2459
Fiji Is	(Fiji $)	2.3658	1.4473	0.9303	1.4783
Finland	(Markka)	8.0384	5.1574	3.315	5.2679
France	(Fr)	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Cty/Africa	(CFA Fr)	832.180	533.928	343.195	545.37
Fr. Guiana	(Local Fr)	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Pacific Is	(CFP Fr)	[illegible]	[illegible]	[illegible]	[illegible]
Gabon	(CFA Fr)	832.180	533.928	343.195	545.37
Gambia	(Dalasi)	14.8789	9.5463	6.1361	9.7509
Germany	(D-Mark)	2.4248	1.5557	1	1.589
Ghana	(Cedi)	1467.84	941.84	605.262	961.819
Gibraltar	(Gib £)	1.00	0.6416	0.4124	0.6553
Greece	(Drachma)	366.895	235.4	151.309	240.445
Greenland	(Danish Krone)	9.5307	6.1149	3.9305	6.2459
Grenada	(E Carr $)	4.2066	2.6989	1.7348	2.7567
Guadaloupe	(Local Fr)	8.3218	5.3392	3.4319	5.4536
Guam	(US $)	1.5586	1	0.6427	1.0214
Guatemala	(Quetzal)	8.8881	5.7013	3.6646	5.8236
Guinea	(Fr)	1521.66	976.312	627.549	997.234
Guinea-Bissau	(Peso)	19157.2	12291.3	7900.63	12554.7
Guyana	(Guyanese $)	219.366	140.746	90.4678	143.762
Haiti	(Goude)	18.6960	11.9953	7.7103	12.2524
Honduras	(Lempira)	13.3676	8.5766	5.5128	8.7604
Hong Kong	(HK $)	12.0397	7.7246	4.9652	7.8902
Hungary	(Forint)	156.536	100.436	64.557	102.587
Iceland	(Icelandic Krona)	105.380	67.6119	43.4592	69.0606
India	(Indian Rupee)	48.8874	31.3662	20.1614	32.0384
Indonesia	(Rupiah)	3376.71	2166.5	1392.57	2212.93
Iran	(Rial)	2744.00	1760.55	1131.64	1798.28
Iraq	(Iraqi Dinar)	0.4844	0.3107	0.1997	0.3174
Irish Rep	(Punt)	1.0134	0.6501	0.4179	0.6641
Israel	(Shekel)	4.6894	3.0087	1.9339	3.0732
Italy	(Lira)	2409.99	1546.25	993.892	1579.39
Jamaica	(Jamaican $)	49.0770	31.4878	20.2396	32.1626
Japan	(Yen)	152.585	97.9051	62.9309	100.003
Jordan	(Jordanian Dinar)	1.0738	0.689	0.4429	0.7037
Kenya	(Kenya Shilling)	87.40	56.0756	36.0442	57.2776
Kiribati	(Australian $)	2.1216	1.3612	0.8749	1.3903
Korea North	(Won)	3.3497	2.1491	1.3814	2.1952
Korea South	(Won)	1258.26	807.301	518.913	824.602
Kuwait	(Kuwaiti Dinar)	0.4612	0.2959	0.1902	0.3022
Laos	(New Kip)	1121.76	719.723	462.62	735.146
Latvia	(Lats)	0.8527	0.547	0.3516	0.5588
Lebanon	(Lebanese £)	2616.11	1678.5	1078.9	1714.47
Lesotho	(Maluti)	5.7143	3.6663	2.3566	3.7448
Liberia	(Liberian $)	1.5586	1	0.6427	1.0214
Libya	(Libyan Dinar)	0.4753	0.3049	0.196	0.3114
Liechtenstein	(Swiss Fr)	2.0449	1.312	0.8433	1.3401
Lithuania	(Litas)	6.2320	3.9984	2.5701	4.0841
Luxembourg	(Lux Fr)	50.0155	32.09	20.6266	32.7777
Macao	(Pataca)	12.4356	7.9786	5.1285	8.1496
Madagascar	(MG Fr)	5055.70	3243.74	2085	3313.26
Madeira	(Port Escudo)	249.688	160.2	102.973	163.638
Malawi	(Kwacha)	11.3100	7.2566	4.6643	7.412
Malaysia	(Ringgit)	4.0438	2.5945	1.6676	2.6501
Maldive Is	(Rufiya)	18.0728	11.5955	7.4533	11.844
Mali Rep	(CFA Fr)	832.180	533.928	343.195	545.37
Malta	(Maltese Lira)	0.5722	0.3671	0.2359	0.3749
Martinique	(Local Fr)	8.3218	5.3392	3.4319	5.4536
Mauritania	(Ouguiya)	190.762	122.393	78.6712	125.016
Mauritius	(Maur Rupee)	26.7684	17.1753	11.0866	17.5413
Mexico	(Mexican Peso)	5.3001	3.4005	2.1857	3.4734
Miquelon	(Local Fr)	8.3218	5.3392	3.4319	5.4536
Monaco	(French Fr)	8.3218	5.3392	3.4319	5.4536
Mongolia	(Tugrik)	623.20	399.846	257.011	408.415
Montserrat	(E Carr $)	4.2066	2.6989	1.7348	2.7567
Morocco	(Dirham)	13.7587	8.8276	5.6741	9.0167
Mozambique	(Metical)	9247.61	5933.22	3813.72	6060.36
Namibia	(S A Rand)	5.7143	3.6663	2.3566	3.7448
Nauru Is	(Australian $)	2.1216	1.3612	0.8749	1.3903
Nepal	(Nepalese Rupee)	76.7315	49.231	31.6444	50.286
Netherlands	(Guilder)	2.7195	1.7448	1.1215	1.7822
N'nd Antilles	(A/Guilder)	2.7988	1.7892	1.1501	1.8276
New Zealand	(NZ $)	2.6025	1.6697	1.0732	1.7055
Nicaragua	(Gold Cordoba)	10.5103	6.7434	4.3345	6.8879
Niger Rep	(CFA Fr)	[illegible]	[illegible]	[illegible]	[illegible]
Nigeria	(Naira)	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(Nor. Krone)	[illegible]	[illegible]	[illegible]	[illegible]
Oman	(Rial)	[illegible]	[illegible]	[illegible]	[illegible]
Pakistan	(Pak. Rupee)	47.8299	30.6594	19.6428	31.2142
Panama	(Balboa)	1.5586	1	0.6427	1.0214
Papua New Guinea	(Kina)	1.4729	0.945	0.6074	0.9652
Paraguay	(Guarani)	2801.28	1797.31	1155.26	1835.82
Peru	(New Sol)	3.4211	2.1949	1.4108	2.242
Philippines	(Peso)	41.2251	26.45	17.0014	27.0169
Pitcairn Is	(£ Sterling)	1.00	0.6416	0.4124	0.6553
	(NZ $)	2.6025	1.6697	1.0732	1.7055
Poland	(Zloty)	34764.8	22305	14337.1	22783
Portugal	(Escudo)	249.688	160.2	102.973	163.638
Puerto Rico	(US $)	1.5586	1	0.6427	1.0214
Qatar	(Riyal)	5.6711	3.6386	2.3387	3.7165
Reunion Is. de la	(F/Fr)	8.3218	5.3392	3.4319	5.4536
Romania	(Leu)	2628.69	1686.57	1084.09	1722.71
Rwanda	(Fr)	216.20(2)	138.714	89.1619	141.687
St Christopher	(E Carr $)	4.2066	2.6989	1.7348	2.7567
St Helena	(£)	1.00	0.6416	0.4124	0.6553
St Lucia	(E Carr $)	4.2066	2.6989	1.7348	2.7567
St Pierre	(French Fr)	8.3218	5.3392	3.4319	5.4536
St Vincent	(E Carr $)	4.2066	2.6989	1.7348	2.7567
San Marino	(Italian Lira)	2409.99	1546.25	993.892	1579.39
Sao Tome	(Dobra)	1068.10	685.294	440.49	699.98
Saudi Arabia	(Riyal)	5.8455	3.7504	2.4107	3.8308
Senegal	(CFA Fr)	832.180	533.928	343.195	545.37
Seychelles	(Rupee)	7.5693	4.8206	3.1026	5.026
Sierra Leone	(Leone)	895.850	574.779	369.453	587.095
Singapore	($)	2.3574	1.5125	0.9722	1.5449
Slovakia	(Koruna)	48.8080	31.3152	20.1286	31.9863
Slovenia	(Tolar)	188.15	120.717	77.594	123.304
Solomon Is	($)	5.0646	3.2624	2.0969	3.3323
Somali Rep	(Shilling)	4081.96	2618.89	1683.42	2675.12
South Africa	(Rand)	5.7143c	3.6663	2.3566	3.7448
		6.9553g	4.4625	2.8684	4.5581
Spain	(Peseta)	200.358	128.55	82.6266	131.305
Spanish Ports in N Africa	(Sp Peseta)	200.358	128.55	82.6266	131.305
Sri Lanka	(Rupee)	76.2857	48.945	31.4606	49.9939
Sudan Rep	(Dinar)	48.4539	31.088	19.9825	31.7542
Surinam	(Guilder)	285.301v(4)	183.05	117.66	186.972
Swaziland	(Lilangeni)	5.7143	3.6663	2.3566	3.7448
Sweden	(Krona)	12.0334	7.7206	4.9626	7.8861
Switzerland	(Fr)	2.0449	1.312	0.8433	1.3401
Syria	(£)	31.9390	20.4921	13.1718	20.9312
Taiwan	($)	41.4245	26.578	17.0836	27.1475
Tanzania	(Shilling)	800.81	513.801	330.256	524.812
Thailand	(Baht)	38.8871	24.95	16.0372	25.4846
Togo Rep	(CFA Fr)	832.180	533.928	343.195	545.37
Tonga Is	(Pa Anga)	2.1216	1.3612	0.8749	1.3903
Trinidad/Tobago	($)	8.6959	5.5729	3.5821	5.6923
Tunisia	(Dinar)	1.5267	0.9795	0.6296	1.0005
Turkey	(Lira)	49238.7	30950	19893.9	31613.3
Turks & Caicos	(US $)	1.5586	1	0.6427	1.0214
Tuvalu	(Australian $)	2.1216	1.3612	0.8749	1.3903
Uganda	(New Shilling)	1491.79	957.136	616.222	977.548
Ukraine	(Karbovanets)	30381.0	19492.5	12529.3	19910.2
U A E	(Dirham)	5.7284	3.6753	2.3624	3.7541
United Kingdom	(£)	1.00	0.6416	0.4124	0.6553
United States	(US $)	1.5586	1	0.6427	1.0214
Uruguay	(Peso Uruguayo)	7.8212	5.018	3.2255	5.1256
Vanuatu	(Vatu)	176.901	113.5	72.9548	115.932
Vatican	(Lira)	2409.99	1546.25	993.892	1579.39
Venezuela	(Bolivar)	264.962	170	109.272	173.643
Vietnam	(Dong)	17108.4	10976.5	7055.59	11212
Virgin Is-British	(US $)	1.5586	1	0.6427	1.0214
Virgin Is-US	(US $)	1.5586	1	0.6427	1.0214
Western Samoa	(Tala)	3.9344	2.5243	1.6225	2.5784
Yemen (Rep of)	(Rial)	88.30a(3)	58.6534	36.4153	57.8674
Yemen (Rep of)	(Dinar)	0.6884(5)	0.4416	0.2839	0.4511
Yugoslavia	(New Dinar)	[illegible]	[illegible]	[illegible]	[illegible]
Zaire		[illegible]	[illegible]	[illegible]	310.014
Zambia		[illegible]	[illegible]	[illegible]	712.179
Zimbabwe		[illegible]	[illegible]	[illegible]	8.1836

Special Drawing Rights July 14, 1994 [illegible] Yen 120.959

Abbreviations: [illegible] Official Yemeni [illegible]

Friday, July 15, 1994

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY
Abbey Natl. Treas. Services 7.5% Gtd. Notes '98 C$75
Airflow Streamlines 2p
Assahi Brew FRN '98 Y151,247
Betterware 1.95p
BP America Inc. 9¼ Gtd. Notes '99 A$92.50
Bradford & Bingley Bldg. Soc. FRN '98 £130.89
Gen. Motors Acceptance 9% Notes '96 $0.36
Grt. Port. Ests. 5.3p
Halifax Bldg. Soc. FRN '95 £130.89
Hydro-Quebec 8% Dual Currency Y80,000
Land Securities 17.4p
NatWest Bank Non-Cum Dollar Pref. $0.532
Do. Non-Cum Dollar Pref. Series B $0.4375
Do. Exchangeable Cap. Secs. $0.492188
New Zealand 10½% Bds. 2000 $105
Parkland Group 3p
Suzuki Motor 6% Bds. 1996 Y600,000
Tarmac 2.5p
Texas Instruments $0.25
Wickes 0.8p
WPP Group 0.85p

TOMORROW
Albert Fisher 1.85p
Anglo Irish Bank IR1.36p
Barings Gtd. Fltg. Rate Cap. Notes '01 $251.39
Brit. Funds 9¾% Exch. '98 £4.875
Do. 2% IL Treas. '06 £2.03
Caffyns 6.5p
Fisons $0.0752
Flour Corp. $0.13
G.R. Holdings 22.5p
Henderson Admin. Group 31.5p
Linton Park 12.5p
MEPC 5.25p
Plysu 5p
Tate & Lyle 4.6p
Wells Fargo Fltg. Rate Sub. Notes '97 $109.01

WEDNESDAY JULY 20
Atkins Group 4.25p
Bradford & Bingley Bldg. Soc. Perm. Int. Bearing £561.25
Brit. Steel 11½% Deb Stk. '16 £5.75
Dewhurst Dent Unsec. Ln. '90-2000 £3.50
Elys (Wimbledon) 9¾% Unsec Ln. 95/99 £4.875
Mezzanine Cap. & Inc. Tst. 7.25p
M & G Income Inv. Tst. 1p
Do. Geared Ord. 1p
Package Units 1p
Mid Kent Hldgs. 6.5p
Northern Rock Bldg. Soc. FRN '98 £134.01
Penna 3p

THURSDAY JULY 21
Barclays Bk. Undated Fltg. Rate Prim. Cap. Notes £3,583.90
Brit. Funds 10¼% Exch. '95 £5.125
Chester Water 170p
Drayton English & Intl. Tst. 0.4p
Finsbury Tst. 2p
Do. A Non Vtg 2p
For. & Colonial Smaller Cos. 1.27p
NatWest Bank Undated Var. Rate Nts. $1,278.53
Okobank Osuuspankkien K. Var. Rate Sub. Nts 2000 $121.33
Royal Bk. Scotland 4p
Sanwa Australia Fin. Gtd. Fltg. Fixed Rate Nts. '04 $1,929.41
Sketchley 2.2p
Throgmorton Preferred Income Tst. 2p
Wrexham & East Denb. Water Co. 4.9% 141.45p
Do. 3.5% Ptg. 140.75p

FRIDAY JULY 22
Amersham Intl. 11.1p
Brit. Fund 12% Exch. 99/2002 £6
Do. 4⅛% IL Treas. 2030 £2.1617
Do. 13¼% Treas. Ln. 1997 £6.625
Do. 11¾% Treas. 2003/07 £5.875
Do. 14% Treas. '98 £7
City of Lon. PR Group 2.73p
Domino Printing Sciences 3.2p
East. Transvaal Cons. Mines R0.08
Fairline Boats 5p
Fitzwilton IR0.911
Govett High Income Inv. Tst. 2.08p
Highlands & Lowlands M$0.07
Lyons Irish Hldgs. IR3.24p
Do. IR3.71p
McKechnie 5p
Northchart Invs. 230.03
Osborne & Little 4p
Pilot Invs. Tst. 1p
SmithKline Beecham A.D.R $0.283
Sweden 13½ Ln 2010 £67.5
Time Products 5.5p
Tunstall Group 1.35p
Yorkshire-Tyne Tees TV 0.1p
Zandpan Gold Mining R0.146

SUNDAY JULY 24
Burmah Castrol 11p

UK COMPANIES

TODAY
COMPANY MEETINGS:
Ensor Hldgs., The Post House Hotel, Palatine Road, Northenden, Manchester, 10.30
Foreign & Colonial Smaller Cos., 8th Floor Exchange Hse., Primrose Street, E.C., 12.30
Sterling Industries, Cayzer House, 1 Thomas More Street, E., 12.30
BOARD MEETINGS:
Finals:
Unipalm Grp.
Interims:
Brewin Dolphin
Inspirations
Leslie Wise
ML Laboratories

TOMORROW
COMPANY MEETINGS:
Argyll Grp., Savoy Hotel W.C., 11.00
Blagden Inds.,Butchers Hall, E.C. 12.00
Caffyns, Hydro Hotel, Mount Road, Eastbourne, Sussex, 3.00
Cassidy Bros., Mitcham Road, Marton, Blackpool, Lancs., 3.00
Cohen (A), 25/27 Oxendon Street, S.W., 12.00
Courtaulds, London Marriott Hotel, Duke Street, W., 10.45
Drummond Grp., Bankfield Hotel, Bradford, West Yorks., 12.00
Jarvis, 57 Great Eastern Street, E.C., 11.00
Moorgate Smaller Cos., Income Trust, 20 Farringdon Road, E.C., 11.30
Powell Duffryn, Grosvenor House Hotel W.1., 12.00
Whitbread, The Brewery, Chiswell Street, E.C., 12.00
BOARD MEETINGS:
Finals:
AIM
Batleys
Brasway
Bucknall
Creightons Naturally
Nobo
VHE
Victoria Carpet
Interims:
Carlisle
Central Motor Auctions
Lazard Smaller Equities Inv. Tst.
Trust of Property Shares

WEDNESDAY JULY 20
COMPANY MEETINGS:
Acal, Plaisterers' Hall, 1 London Wall, E.C., 12.00
Drayton English & International Trust, 11 Devonshire Square, S.W., 12.00
Elliott (B), RSA, 8 John Adam Street, W.C., 12.00
Fleming High Income Inv. Trust, The Chartered Accountants' Hall, Moorgate Place, E.C., 2.30
Merchant Retail Grp., Tallow Chandlers' Hall, 4 Dowgate Hill, E.C., 11.00
Osborne & Little, 304 Kings' Road, S.W., 11.00
UK Land, RAC Club, Pall Mall S.W., 12.00
Vodafone Grp., The Institute of Electrical Engineers, Savoy Place, W.C., 11.30
West Trust, The Chamber of Shipping, 12 Carthusian Court, E.C., 11.00
BOARD MEETINGS:
Finals:
Colefax & Fowler
Eve
Hollas
McKay Securities
Oceonics
Smith (DS)
Interims:
Yeoman Inv. Tst.

THURSDAY JULY 21
COMPANY MEETINGS:
Babcock Intl. Grp.,Merchant Taylors Hall, Threadneedle Street, E.C., 12.00
Boots Co., Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.00
Bristol Water Hldgs., The Holiday Inn Crowne Plaza, Victoria Street, Bristol, 11.00
Brockhampton Hldgs.,Brockhampton Springs, West Street, Havant, Hants., 12.30
Business Post Grp., 30 Furnival Street, E.C., 10.30
City of London PR Grp.,H.A.C., City road, E.C., 12.00
EMAP, Butchers Hall, E.C., 12.00
Ebonbrook Properties, Churchills, Mount Pleasant, W.C., 10.30
Finsbury Trust, Alderman's House, Alderman's Walk, E.C., 3.00
Hardy Oil & Gas, Plaisterers' Hall, 1 London Wall, E.C., 11.00
London Merchant Securities, Carlton House, 33 Robert Adam Street, W., 12.00
Melville Street Investments, Dunedin House, 25 Ravelston Terrace, Edinburgh, 12.00
M & G Second Dual Trust, Three Quays, Tower Hill, E.C., 3.00
Pilkington, Prescot Road, St. Helens, Merseyside, 11.45
Regalian Properties, Chesterfield Hotel, 35 Charles Street, W., 11.30
Scapa Grp., Moat House Hotel, Preston, Blackburn, 12.00
Signet Grp., New Connaught Rooms, Great Queen Street, W.C., 12.30
Sketchley, The Founders' Hall, 1 Cloth Street, E.C., 12.00
Smith New Court,Smith New Court House, 20 Farringdon Road E.C., 11.30
Southnews, 326 Station Road, Harrow, Middlesex, 12.00
Stoddard Sekers Intl., Glenpatrick Road, Elderslie, Renfrewshire, 12.30
Tex Hldgs.,21 New Street, Bishopsgate E.C., 12.00
VSEL, Forum 28, Barrow in Furness. 7.00
BOARD MEETINGS:
Finals:
Elbief
First Technology
Goode Durrant
Natwest Smaller Co's Inv. Tst.
Property Tst.
Saville Gordon (J)
Staneico
Tinsley (Eliza)
YRM
Interims:
Brown & Jackson
CLM Insurance
Edinburgh Java Tst.
Hill & Smith
Holders Technology
Telemetrix
Wellcome

FRIDAY JULY 22
COMPANY MEETINGS:
East Surrey Hldgs., London Road, Redhill, Surrey, 12.30
Electrocomponents, The Lanesborough, 1 Lanesborough Place, S.W., 12.00
Hobson, 1 High Timber Street, E.C., 10.30
North West Water Grp., G-Mex Centre, Lower Mosley Street, Manchester, 10.30
Oxford Instruments, Old Station Way, Eynsham, Witney, Oxon, 2.00
Readicut Intl., Institute of Directors, 116 Pall Mall, S.W., 12.30
BOARD MEETINGS:
Finals:
Ascot
Black Arrow
Interims:
Abtrust High Inc. Tst.
Baring Tribune Inv. Tst.
Greenfriar Inv.
Selective Assets Tst.
Smaller Co's Inv. Tst.
Sycamore

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DO YOU WANT TO KNOW A SECRET?
The I.D.S. Gann Seminar will show you how the markets REALLY work. The amazing trading techniques of the legendary W.D. Gann can increase your profits and contain your losses. How? That's the secret. Ring 081 474 0080 to book your FREE place.

CONFERENCES & EXHIBITIONS

JULY 22
GROUPWARE FOR ACCOUNTANTS IN PRACTICE AND COMMERCE
Institute of Chartered Accountants/Lotus Development strategic technology conference, with expert speakers from City University Business School, KPMG, Levy Gee and Tate Bramald. The conference will address how accountants and consultants can apply groupware to their business or to practice managment.
Contact: Nicky Cooper Tel: 071 920 8476
LONDON

JULY 28
TOURISM - A WEALTH OF ATTRACTION
CBI Conference on the Thames brings together practitioners and strategists from all sectors of tourism to consider ways to create a competitive, world class product.
Contact Georgina Kingsby.
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646
LONDON

AUGUST 4 - 7
THE NEC AUGUST FAIR
With a theme of 'Antiques For Everyone' this fair will consist of 600 Exhibitors showing a broad range of antiques, fine art and objet d'art. All exhibits will be examined by the Honorary Vetting Committee.
Open 2pm-9pm (4 Aug) 11am-8pm (5/6 Aug) 11 am-6pm (7 Aug).
Enquiries: Linda Colban -
Centre Exhibitors Tel: 021 767 2760
BIRMINGHAM

AUGUST 11
SUCCESSFUL ACQUISITIONS - NEW STRATEGIES IN THE '90s
CBI/Peratec Conference in association with Schroder Ventures at Williams Grand Prix Centre considers formula for success and management techniques required in making successful acquisitions worldwide. Includes speakers from Farnell Electronics, Scott Bader, OKI Systems and Rentokil Group.
Contact Georgina Kingsby,
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646
DIDCOT

SEPTEMBER 7, 8 & 9
STATISTICAL ANALYSIS FOR THE INSURANCE INDUSTRY
Day One: Loss Forecasting & Reserving Analysis (Liability risks). Day Two: Loss Forecasting & Retention Analysis (Property risks). Day Three: Advanced Case studies; Demonstration of computer models.
Essential for risk & insurance managers, underwriters and actuaries.
Contact: Sangita Patel or Margaret O'Brien, Anistics Ltd.
Tel: 071 621 9990 Fax: 071 626 1173
LONDON

SEPTEMBER 11 - 23
RETAIL AND WHOLESALE BANKING
2 week residential seminar for bankers from the emerging markets. Week 1 - retail banking, payments systems, credit assessment & trade finance. Week 2 wholesale treasury, FX and MM and derivative markets. Highly participative training, incl. educational visits to financial institutions in both weeks.
£3,300 + V.A.T. fully inclusive. (15% discount 2+) Lywood David International Ltd.
Reservations by Fax: 0959 565821
LONDON

SEPTEMBER 12-13
UK CABLE, TELEPHONY & FINANCE: LEADING THE WORLD TO THE INFORMATION SUPERHIGHWAY
An in-depth conference on the convergence, cooperation and competition in the UK cable & telephony industry.
Contact: Patricia Baynton, Kagan World Media Limited.
Tel: 071 371 8880 Fax: 071 371 8715
LONDON

SEPTEMBER 14 & 15
FT NUCLEAR INDUSTRY
This high-level forum will examine the outlook for nuclear power in North America and Western Europe, assessing the impact of current government moratoria and review growth potential in the Asian-Pacific region.
Enquiries: Financial Times
Tel: 081 673 9000 Fax: 081 673 1335
LONDON

SEPTEMBER 26-30
RUSSIAN BUSINESS LAW COURSE
Extensive programme covering Draft Civil Code, Land Law & Lease, Settlement of Disputes, Foreign Investment Legislation, Ownership & Privatisation in Russia and Kazakhstan. Faculty: Academician W E Butler, Vinogradoff Institute University College London, Professor AA Rubanov, Institute of State & Law, Moscow. CPD Accredited.
Interforum Tel: +44 (0) 71 386 9322
Fax: +44 (0) 71 381 8914
LONDON

SEPTEMBER 27 & 28
EMPOWERING FLEXIBLE WORK TEAMS IN ASSOCIATION WITH MANAGEMENT TODAY
Special emphasis will be given to the analysis of information from the practitioner's point of view. Each speaker, many appearing with team members, has had direct involvement in implementing and/or operating teams.
Contact: Rachel Thomas or Sarah Peace
IBC Technical Services
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

SEPTEMBER 28-30
TAKING RISKS IN LEADERSHIP ROLES
For CHIEF EXECUTIVES and EXECUTIVE DIRECTORS to explore ways of working constructively with the risks they experience personally in seeking to achieve corporate aims and objectives.
Contact: Jacquie Gibson, The Grubb Institute
Tel: 071 278 8061 Fax: 071 278 0728
LONDON

OCTOBER 4 & 5
RE-ENGINEERING PAY & REWARD SYSTEMS FOR TEAMS
Teamworking is proving to be the core competence to drive radical performance improvement. Remuneration systems in the 90s must reflect and reinforce this. The conference will focus on: Refocusing pay to reflect success, reinforcing and driving flexible teamwork, aligning pay and reward to strategic performance indicators and developing new reward approaches with line managers.
Contact: Rachel Thomas
IBC Technical Services
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

OCTOBER 4-6
FREIGHTCONNECTION 94 CONFERENCE & EXHIBITION
The third annual exhibition and conference for logistics professionals. Keynote speaker Secretary of State for Transport, plus Sir Alastair Morton, Eurotunnel and 15 other leading industry speakers and four debates. Accepted wisdom will be challenged and controversial ideas advanced.
For further details, telephone:
0543 419600. Fax: 0543 419299
LONDON

OCTOBER 12 & 13
STRATEGIES FOR HIGH-INVOLVEMENT LEADERSHIP
This programme is designed to help leaders manage successfully in a changing environment. It will allow you to control change; refocus on high pay-off activities; create partnerships: strengthen trust; motivate and enhance team performance; and stimulate innovation.
Contact: Rachel Thomas or Sarah Peace
IBC Technical Services
Tel: 071 637 4383 Fax: 071 631 3214
REPEATED NOV. 15 & 16
ASHDOWN PARK

OCTOBER 12, 13 & 14
THE LEARNING ORGANISATION
Strategic Learning is proving to be the only real sustainable competitive differentiator in today's increasingly turbulent environment. This conference will be a deliberate step back from theory. Delegates will be taken through a structured learning programme, using practical case studies, to show how to develop a STRATEGIC APPROACH TO LEARNING.
Contact: Rachel Thomas
IBC Technical Services
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

OCTOBER 17 & 18
EMPLOYEE & UNION PARTICIPATION FOR CHANGE
Management and union representatives will share the platform to give the delegate a frank and honest insight into the successes and failures of working partnerships in their companies. Tom Burlison of the GMB and Tom Sawyer of UNISON will give their views on progressive working relationships.
Contact: Rachel Thomas or Sarah Peace
IBC Technical Services
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

OCTOBER 18
PLANNING & IMPLEMENTING STRATEGIC ALLIANCES & JOINT VENTURES
This conference is one of the Corporate Strategy Series arranged by IBC Legal Studies and Services Limited. Key areas of disucssion include: Why Joint Venture?; Pre-Alliance Stages and; Law, Tax and Accounting Considerations.
Contact: Julia Dopheide, IBC Legal Studies and Services Limited
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

OCTOBER 19
ACQUISITIONS
This conference examines the principles involved in making successful acquisitions. Topics include: Why Acquire?; Pre-deal stages: Conducting an effective due dilligence; Anti-trust issues; Public bids; Private sales; Compiling watertight legal documentation; Minimising tax liability and; New Accounting Standards.
Contact: Julia Dopheide, IBC Legal Studies and Services Limited
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

OCTOBER 26 - 27
BPR 94: RE-ENGINEERING, PROCESS MANAGEMENT AND PERFORMANCE IMPROVEMENT
Europe's leading conference and exhibition devoted to exploring how to apply business re-engineering strategies to achieve quantum leaps in corporate performance. Designed to meet the needs of your whole re-engineering team, from executive sponsor to those involved in planning and implementing projects.
Contact: Business Intelligence
Tel: 081 544 1830 Fax: 081 544 9020
LONDON

NOVEMBER 7
MAXIMISING THE VALUE OF YOUR I.T. SUPPLIER
A one day conference. Major I.T. customers, suppliers and consultants will demonstrate how to ensure your I.T. budget is well spent; what is possible technically and contractually. Speakers include Digital UK, DHL, Reed Telepublishing and CITI.
For details call 071 434 3711.
LONDON

NOVEMBER 14
TAXATION OF FINANCIAL INSTRUMENTS FOR MANAGING INTEREST RATES & CURRENCY RISKS
Key Topics at this conference include: Historical development; Overview of new rules; Group structures and reorganising for the new regime; Transitional rules/ excess loss rules; Anti-avoidance/associated party rules and; Matching elections.
Contact: Julia Dopheide, IBC Legal Studies and Services Limited
Tel: 071 637 4383 Fax: 071 631 3214
LONDON

INTERNATIONAL

SEPTEMBER 27-29
DA/DSM EUROPE 94
Competition in combination with open access will force utilities to introduce more advanced technologies such as: IT/DA/DSM/SCADA/AM/FM/GIS/AMR. At this conference & exhibition the latest developments will be discussed and shown by the major companies and utilities. High level.
Contact: PennWell C&E
Tel: *31-30-650.963 Fax*31-30-650.928
PARIS

DECEMBER 7 - 9
SADC - EUROPEAN UNION MINING FORUM
Organised by the Southern African Development Community and the European Commission. 200 investment/exploration projects from 10 African countries to be presented, plus country updates on mining sector, trade, investment and policy issues. Participation free of charge by invitation only. Private business meeting to be programmed on basis of matched interests.
Tel: AGORA 2000: +39 6 3241719
IDOM: +32 2 7326366
Metra Sofres: +44 81 6885535
LUSAKA

JANUARY 1995
BUILD
PRAGUE EXHIBITION & CONFERENCE
• Construction • Metal Trades • Building and Mechanical • Engineering • Local Government. In accordance with EBRD/World Bank funding, the Czech Ministry for Industry and Trade require companies who can supply services for the reconstruction and development of the Czech Republic. For more information and British representation at BUILD, contact; Miroslav Jurek, CENTEC
Tel: 071 925 1232 Fax: 071 306 0750
PRAGUE

TO ADVERTISE IN THIS SECTION PLEASE CALL JANET KELLOCK ON 071-873 3503

CONTRACTS & TENDERS

INTER-AMERICAN DEVELOPMENT BANK (IDB)

PRE-QUALIFICATION FOR THE SELECTION OF EXTERNAL AUDITORS

The Inter-American Development Bank (Bank), is inviting expressions of interest from international accounting firms wishing to be considered to conduct the financial audit of the Bank, the funds under its administration and its pension-related funds, for the fiscal years 1995 through 1999.

Expressions of interest must include statements concerning the following requirements, in the order requested:

1. The firm: a) is a public accounting firm headquartered in a Bank member country and has been operating for a minimum of 10 years; b) has an international operating infrastructure; c) operates under common standards and policies worldwide; d) has formal continuing education and peer review programs; and e) has the ability to render accounting services in all major financial centers of the world.
2. A general background of the firm including a description of ownership and structure encompassing its national and international operations.
3. The firm has the ability to conduct audits under US generally accepted auditing standards and issue audit opinions on financial statements which have been prepared in conformity with US generally accepted accounting principles.
4. The firm is experienced with all filing requirements established by the US Securities and Exchange Commission (SEC) (provide a list of the firm's largest audit clients requiring filings with the SEC).
5. The firm has the ability to: a) service the needs of the Bank at its headquarters in Washington, DC, USA; b) provide services in cities where the Bank has its country offices; and c) provide professional support in connection with bond issuances in capital markets worldwide.
6. The firm is experienced in auditing multinational banks and/or similar institutions.

Replies (6 copies) must be addressed to the attention of Ms. Marilyn Hickson, Procurement and Contracts Section, Inter-American Development Bank, 1300 New York Avenue, NW, Washington, DC 20577 and must be received at the Bank no later than Wednesday, August 17, 1994 at 5:00 pm. It is the responsibility of the firm to ensure timely delivery of the pre-qualification materials. The Bank will take no responsibility for late or missing deliveries. Responses received after the prescribed date and time will not be considered and will be returned. Incomplete or inadequate responses, lack of response or misrepresentation in responding to the above requirements will disqualify the firm from any further consideration. The Bank, at its option, may take the necessary steps to verify any of the information provided in response to these pre-qualification requirements.

This does not constitute either a Request for Proposal or an offer to contract and does not create any obligation on the part of the Bank.

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / **Richard Waters in New York**

Elections set the tone

Over the next three months, political considerations will set the tone in some of the biggest investment markets in the Americas. Leave aside, for the moment, President Clinton's little local difficulties with healthcare reform and mid-term elections: voters to the north and south will make their own procession to the polls to make decisions with the potential for large effects on markets.

It starts with presidential elections next month in Mexico, a country stricken by political uncertainty for much of this year. It then shifts to Canada at the end of September, the likely date for a regional vote which once again raises the spectre of Quebec devolution.

It moves to Brazil in October, for the voters' verdict on the administration's latest economic stabilisation plan.

To varying degrees, investors in each of these countries have demanded a risk premium to maintain their involvement. And in each market, foreign investors, normally a substantial part of the investment scene, have been notable by their absence.

In Mexico and Canada, at least, a return of overseas capital seems likely later this year.

The political risk premium implicit in Mexico and Brazil is probably clearest in the valuation bases of their stock markets relative to other Latin markets.

Half-way through this year, Mr Geoffrey Dennis at Bear Stearns estimated that Mexican shares were on a multiple of 13.5 times this year's earnings, with Brazil at 12.3 times. For 1995, this falls to 10.8 times projected earnings for Mexico and 10.4 times for Brazil, about a point less that the regional average.

For the Latin stock markets as a whole these sort of multiples make for a better investment case than at the peak levels reached by the end of January.

From there share prices fell on average by a third, courtesy of Mr Alan Greenspan, chairman of the Federal Reserve, and then failed to sustain a rebound in June, again echoing the pattern of US markets. Unless the US bond market goes into another spasm this autumn, the stage seems set for a more stable second half.

Mexico could soon be due for a respite from the political uncertainty which has followed the Chiapas uprising and Colosio assassination.

The August 21 election will no doubt be a messy affair with perhaps the loss by the ruling PRI party of its two-thirds majority in Congress. But the PRI is expected to maintain its hold on the administration.

If the foreign capital flowing into Mexico picks up after the election, it could help to bring its own reward. Renewed investment would take the pressure off the peso, allowing interest rates to ease back and bolstering economic growth, which in turn will support share prices.

The outcome of Brazil's autumn presidential elections seem far more open to doubt, implying greater volatility in Brazilian financial markets over the coming months. "Volatile" and "Brazil" are words which fit neatly together. Shares soared 60 per cent early this year, fell almost as much, and then rebounded further than most other Latin markets.

The latest Brazilian currency, the real, was introduced only on July 1, with a commitment by the administration to put a sizeable chunk of the country's foreign currency reserves to defending its parity with the dollar.

It is a giant game of poker. Will this anti-inflationary message produce the desired effect? Or will the markets call the government's bluff?

The autumn election, the first round of which is on October 3, could hang on the result. Holding the country's hyper-inflation in check would do wonders for the political credibility of Mr Fernando Cardoso, the finance minister, as consumers experienced the novelty of stable shop prices, well, stable relative to past experience, at least.

Recent opinion poll advances by Mr Cardoso, from a very weak position, have already put some zest in share prices. Whatever doubts hang over the long-term picture, there seems plenty of room for a short-term rebound later this year.

Mr Dennis predicts a return of the stock market index to 3,100 by the end of the year, while Ms Tamzin Hobday at Barings is estimating a more modest bounce to 2,900.

■ 9% real yield?

Canada's own political uncertainty has contributed to a remarkable turn of events in its financial markets. The possibility of a real yield of nearly 9 per cent on ten-year government bonds

The intimate connection between the future of Quebec and the country's massive budget deficit explain this seemingly bizarre position.

The debt levels are the immediate cause of the market's concern. Taken together, federal and state debts amount to more than 100 per cent of the country's GDP. Higher interest rates have made the situation worse, adding to financing costs and pushing the debt level higher.

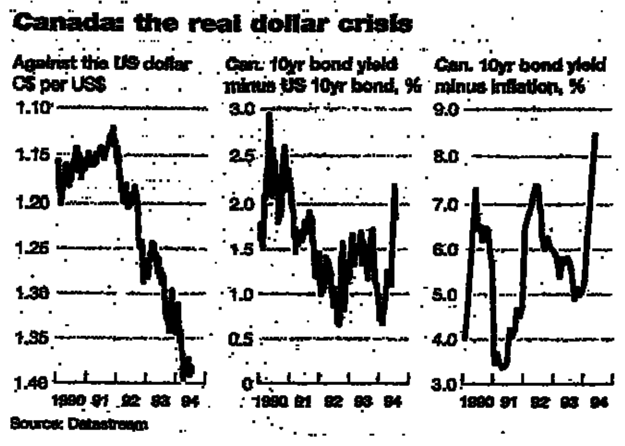
Concern about Quebec has set a match to the concern. If the seperatists gain power in September, they have promised a referendum on devolution within a year. Who, then, would be liable for the federal debt?

This is not the first time the Quebec Question has led to a foreign investor strike and thrown the Canadian markets into a tizzy. The reality, though, may be less alarmist. Opinion polls suggest that a referendum would not bring support for a free-standing Quebec. And even if it did, the Parti Quebecois has expressed its willingness to take on a share of the federal debt.

The realisation that there has been an over-reaction in the financial markets has already driven a recovery in the bond market in the past fortnight. The spread between ten-year US and Canadian bonds, which shot up to more than 220 basis points towards the end of June, has since dropped back to about 160. The steady flow of Canadian dollar eurobonds over the past week testifies to the renewed interest of foreign investors.

With headline inflation at zero, though (and underlying inflation not much over 1 per cent,) the real yield still looks remarkable. Assuming the government does not reverse course and inflate its way out of its debt hole, there are likely to be buying opportunities ahead.

Canada: the real dollar crisis



Source: Datastream

Total return in local currency to 14/7/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.08	0.04	0.09	0.10	0.15	0.09
Month	0.36	0.18	0.42	0.46	0.65	0.41
Year	3.56	3.06	6.38	6.44	8.84	5.75
Bonds 3-5 year						
Week	0.26	-0.02	1.18	0.81	1.03	1.59
Month	-0.31	0.16	1.51	0.82	-0.45	1.96
Year	-0.53	4.87	6.03	4.25	9.15	3.59
Bonds 7-10 year						
Week	0.56	-0.17	2.05	1.37	3.01	2.78
Month	-0.93	-0.60	2.28	1.00	0.57	3.18
Year	-3.48	4.39	4.20	2.11	11.38	2.49
Equities						
Week	1.3	-0.2	0.4	2.5	2.2	2.8
Month	-1.8	-2.8	-0.5	-1.1	-2.2	0.5
Year	3.2	3.3	13.1	5.5	24.8	12.0

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Economic Eye / **Martin Wolf**

Gas from greenhouses

Labour standards, discussed here two weeks ago, are not the only contentious issue foisted on the World Trade Organisation by pressure from industrial countries, principally the US. The greening of trade is already on the agenda, following the ministerial meeting in April.

The introduction of environmentalism into the trading system is a serious worry: trade measures, however convenient, are never the first-best instrument for achieving environmental objectives; the environmental cause is exposed to capture by protectionist interests; and an escalation of trade disputes in this area could undermine the multilateral trading system.

As explained by Daniel Esty of the Institute for International Economics in Washington, in an admirably balanced book, the environmentalist agenda for trade is based on four concerns: that trade liberalisation causes economic growth, which harms the environment; that countries with lax environmental standards enjoy an unfair competitive advantage; that trade rules may undermine, or override, domestic environmental regulations; and that GATT limits the use of trade restrictions as a form of leverage upon the recalcitrant. *

Where the production of goods – such as clean air – or of bads – such as species extinction – carries no price, growth may be harmful. Yet this has little to do with trade as such. Economic growth is also often good for the environment. The most important cause of deforestation is felling for firewood, which occurs when people cannot afford commercial energy. Similarly, the quality of water and urban air improves as countries become richer. To the extent that higher incomes are environmentally damaging, the advanced industrial countries pose the main problem. The chart shows that US residents emit 16 times more carbon dioxide (the leading cause of the greenhouse effect) per person than their counterparts in low-income countries.

It is also wrong to assume that trade liberalisation damages the environment. By pricing energy well below world prices, the rate at which China emits carbon dioxide per unit of gross domestic product is 16 times higher than Japan's. Kym Anderson, the Australian international economist, points out that, in the case of agriculture, "countries with relatively low producer prices, such as Argentina, Australia and Thailand use less than one twentieth the amounts of chemical fertiliser per cropped hectare that high price countries such as Switzerland use." **

Equally misplaced is worry about eco-dumping. There is no difference between the competitive implications of divergent environmental standards and the consequences of other legitimate policy differences between countries.

Drawing on a study of seven advanced economies, Piritta Sorsa of the World Bank also argues that the industries that spent most on pollution control maintained their international competitiveness between 1970 and 1990. ***

Since rich countries have a comparative advantage in capital-intensive process industries, this is unsurprising.

Optimal environmental regulations depend on resources, geography, wealth and tastes, all of which diverge among countries. Moreover, a country as a whole cannot be put at a competitive disadvantage, only specific industries. Environmentalists presumably wish to see these polluting domestic industries shrink. They also argue that opposition to higher standards, induced by fear of foreign competition, is a political obstacle to the domestic regulations they desire. Why must Mexico adopt standards it does not want, merely to make it easier for environmentalists to obtain the acquiescence of US industrialists?

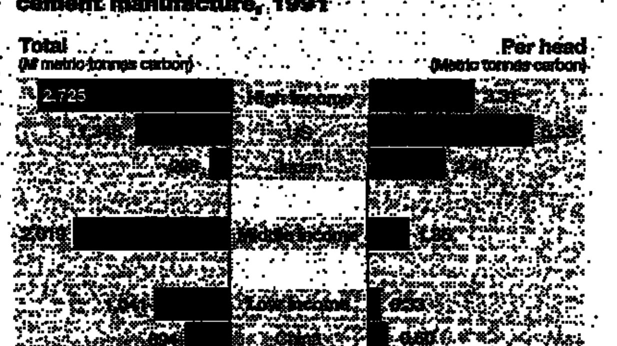
The argument that trade rules and trade liberalisation may undermine domestic environmental regulations is almost equally misplaced. Where an international objective, such as preservation of the ozone layer, is desired, the best course is global agreement. It is also questionable whether countries should be allowed to restrict imports merely because they are produced in ways deemed unacceptable. It is difficult to think of a way to contain the cross-border assertion of divergent priorities. Dolphins are valued in the US. How would the US feel if India were to argue for respect for cows?

GATT does restrict use of trade restrictions as a lever. Where there is no international environmental overspill, the issue is dumping. Where there is such overspill, it is whether trade policy is the best instrument to bring about change. It will not work with big and powerful countries. Trade restrictions also impose costs on those who use them and risk cycles of retaliation. The right policy must be compensation. At present, for example, countries with forests are exporting the service of carbon dioxide reduction. Because they are not recompensed, there is inadequate incentive to continue.

Rich countries are telling people in poor countries to stop cutting down the trees that absorb carbon dioxide they emit; to protect animals they think valuable; and to stop production they condemn as polluting. People living in greenhouses should stop emitting hypocritical gas.

** Daniel C Esty, Greening the Gatt: Trade, Environment and the Future (Washington DC: Institute for International Economics, 1994); ** Kym Anderson, "Economic Growth, Environmental Issues and Trade, Discussion Paper No 830 (London: Centre for Economic Policy Research, 1993); *** Piritta Sorsa, Competitiveness and Environmental Standards, Working Paper 1249, International Economics Department, World Bank.*

Carbon dioxide emissions from fossil fuel and cement manufacture, 1991



Source: World Bank

COMMODITIES

Aluminium plan under review

The aluminium industry will be hoping that niggling doubts about Russia's commitment to its output cutting programme can be removed at an international meeting in Canberra, Australia, on Wednesday and Thursday.

Australia, Canada, the 12-nation European Union, Norway, Russia and the US will be reviewing progress with the scheme they agreed in January to reduce output by between 1.5m and 2m tonnes for two years so as to bring the market back into balance after a period of soaring stocks.

Prices have risen strongly since then and stocks have begun to fall, but there are worries that those very facts may weaken the resolve of some companies to see the plan through.

Russia, in particular, is giving cause for concern as it is believed to be well behind schedule with the second tranche of its promised cuts.

Further concern has been caused by the news that Russia is not sending to this week's meeting the same senior negotiators who represented it at earlier talks. It has been suggested that one is not coming because he has been promoted. Other delegates will be hoping that is all there is to it.

There is some disappointment that big producers outside the group, like those in Brazil, Venezuela and the Gulf states, have not emulated the cuts and that it has not proved possible to induct them into the group because of anti-trust worries.

Progress with the cuts is being monitored by the International Primary Aluminium Institute, which is releasing June output figures for its members on Wednesday.

Also on Wednesday, the US Department of Agriculture will be issuing its latest agricultural outlook report, and in Denver the US Cattlemen's Association will begin its three-day, mid-year conference.

On Tuesday the privatisation committee of Minero Peru, the state mining and metals concern, is scheduled to announce the successful bidders for three big gold concessions.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 15 1994 US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THURSDAY JULY 14 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (69)	173.08	8.7	164.63	107.11	139.99	156.67	-4.2	3.52	168.34	159.58	104.58	135.28	152.47	189.15	138.26	139.66
Austria (17)	188.02	1.6	178.85	116.36	152.08	151.98	-8.8	1.05	189.23	179.38	117.55	152.06	151.36	195.41	149.23	149.69
Belgium (37)	170.32	4.7	162.01	105.41	137.78	134.79	-7.0	4.10	170.49	161.62	105.91	137.00	133.61	176.67	143.62	149.90
Canada (106)	127.92	-5.8	121.68	79.16	103.46	127.53	-2.0	2.68	127.61	120.97	79.28	102.54	127.73	146.31	120.54	126.49
Denmark (33)	269.67	9.2	256.71	167.01	218.28	224.44	-1.8	1.32	269.88	255.84	167.88	216.87	222.88	275.79	207.58	209.84
Finland (24)	155.22	26.0	147.65	96.06	125.55	168.01	12.2	0.84	155.87	147.76	96.83	125.25	167.88	156.95	95.42	97.40
France (97)	170.93	-2.9	162.59	105.78	138.25	143.16	-12.2	3.13	172.27	163.30	107.02	138.43	143.16	185.37	149.60	149.60
Germany (58)	143.26	2.1	136.27	88.66	115.87	115.87	-8.5	1.78	141.81	134.43	88.10	113.96	113.96	147.07	112.69	114.20
Hong Kong (56)	371.39	-24.1	353.28	229.84	300.40	368.32	-24.1	3.22	359.29	340.60	223.21	288.73	356.41	506.66	271.42	281.10
Ireland (14)	198.09	7.0	188.44	122.60	160.23	181.49	-2.0	3.36	196.08	185.88	121.82	157.57	178.90	209.33	157.90	159.39
Italy (61)	88.38	28.9	84.07	54.70	71.49	102.07	16.4	1.48	87.78	83.21	54.53	70.54	100.35	97.78	57.88	68.90
Japan (468)	169.94	30.6	161.66	105.17	137.46	105.17	14.8	0.73	168.97	160.17	104.97	135.78	104.87	170.10	124.54	150.54
Malaysia (98)	475.24	-19.7	452.08	294.11	384.40	474.87	-22.8	1.72	473.51	448.88	294.17	380.62	472.23	621.63	322.60	322.60
Mexico (18)	1933.00	-18.0	1838.72	1196.27	1563.49	7188.76	-11.4	1.86	1915.87	1816.17	1190.21	1539.57	7123.07	2647.08	1516.57	1559.52
Netherland (27)	204.97	3.0	194.98	126.85	165.80	163.24	-7.5	3.48	204.48	193.84	127.03	164.32	161.76	207.43	164.59	164.59
New Zealand (14)	67.36	-0.8	64.07	41.69	54.48	59.72	-7.3	4.00	65.86	62.43	40.91	52.92	58.49	77.59	51.62	52.21
Norway (23)	203.36	13.2	193.44	125.85	164.49	187.84	2.4	1.76	203.40	192.82	126.36	163.45	186.76	206.42	156.74	159.63
Singapore (44)	342.41	-8.8	325.72	211.91	276.96	238.86	-12.4	1.77	339.22	321.57	210.74	272.60	238.56	378.92	244.27	244.27
South Africa (59)	292.41	9.5	278.15	180.97	236.52	285.21	13.9	2.22	286.04	271.16	177.70	229.86	262.28	292.41	175.83	205.39
Spain (42)	142.01	1.9	135.08	87.89	114.86	139.30	-8.3	4.18	143.16	135.71	88.93	115.04	138.25	155.79	116.33	119.95
Sweden (36)	212.35	8.1	201.99	131.42	171.76	242.71	0.2	1.65	212.18	201.14	131.81	170.61	240.95	231.35	168.75	170.11
Switzerland (47)	156.93	-2.0	149.27	97.12	126.93	127.64	-13.4	1.90	168.54	160.29	98.49	127.40	126.17	178.56	124.46	127.72
United Kingdom (204)	195.23	-4.8	185.70	120.82	157.91	185.70	-9.6	4.06	194.36	184.25	120.75	156.19	184.25	214.96	170.49	171.62
USA (519)	185.40	-2.4	176.36	114.74	149.96	185.40	-2.4	2.89	185.09	175.46	114.99	148.74	185.09	196.04	178.95	183.99
EUROPE (720)	169.95	0.9	161.66	105.18	137.47	151.75	-6.1	3.06	169.72	160.89	105.44	136.38	150.65	178.58	142.62	142.66
Nordic (116)	210.90	11.3	200.61	130.52	170.58	205.12	1.6	1.45	210.95	199.97	131.05	169.52	203.83	220.60	160.69	161.73
Pacific Basin (750)	176.86	21.9	168.23	109.45	143.05	114.76	8.5	1.04	175.41	166.29	108.97	140.96	114.20	176.86	134.79	153.82
Euro-Pacific (1470)	173.82	12.1	165.34	107.57	140.59	129.78	1.0	1.87	172.89	163.89	107.40	138.93	129.01	173.82	143.88	149.21
North America (625)	181.84	-2.4	172.97	112.53	147.08	181.43	-2.4	2.88	181.52	172.08	112.77	145.87	181.15	192.73	176.67	180.42
Europe Ex. UK (516)	152.60	3.4	145.16	94.44	123.43	131.55	-7.0	2.47	152.66	144.72	94.84	122.68	130.64	157.47	124.77	124.77
Pacific Ex. Japan (281)	247.19	-13.8	235.14	152.98	199.94	221.51	-17.0	2.88	241.63	229.06	150.11	194.17	216.52	298.21	184.93	186.45
World Ex. US (1653)	174.69	11.1	166.17	108.11	141.29	133.03	1.0	1.90	173.70	164.66	107.91	139.58	132.28	174.69	145.58	149.88
World Ex. UK (1968)	175.46	7.1	166.91	108.59	141.92	145.78	0.8	2.05	174.71	165.62	108.54	140.40	145.19	175.56	155.96	159.20
World Ex. So. Af. (2113)	176.50	6.0	167.89	109.23	142.76	148.40	-0.4	2.24	175.78	166.64	109.20	141.26	147.76	178.56	158.54	160.11
World Ex. Japan (1703)	183.50	-2.2	174.55	113.56	148.42	174.65	-5.5	2.93	182.83	173.32	113.58	146.92	173.69	195.20	166.51	167.44
The World Index (2172)	177.22	6.0	168.58	109.68	143.34	149.42	-0.3	2.24	176.48	167.26	109.62	141.80	146.77	178.67	158.86	160.81

Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited. 1987
Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Constituent changes during the week ending 15/7/94: Additions: Ina (Italy) and Viacom "B" (USA). Deletions: Paramount Communications (USA) and Smith (W.H.) "B" (U.K.). French market closed 15/7/94.

WORLD BOND MARKETS: This Week

NEW YORK — Patrick Harverson

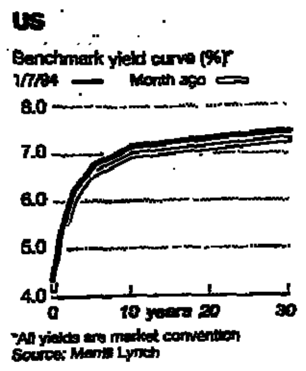
A year ago, Mr Alan Greenspan, the Federal Reserve chairman, warned Congress in his Humphrey-Hawkins testimony that interest rates were probably too low, and that it was likely the Fed would have to tighten monetary policy to prevent inflationary pressures from building up.

On Wednesday, Mr Greenspan returns for another Humphrey-Hawkins session and some analysts believe he may issue a similar warning about interest rates. Although the Fed has raised interest rates four times in the past year, the strength of the US economy continues to surprise observers, including those at the central bank.

Consequently, trading on the bond market today and tomorrow should be cautious, with most dealers and investors likely to stay on the sidelines until Mr Greenspan heads for Capitol Hill.

Wednesday will be particularly tricky for the market, with two Treasury auctions of two-year and five-year notes also scheduled. If they go poorly, it will bode ill for the auctions of 10-year notes and 30-year bonds due later in the refunding round.

If Mr Greenspan suggests on Wednesday that further rate rises are in the pipeline, the ground earned last week could be quickly given up, sending the 30-year yield – currently at 7.5 per cent – back above 7.7 per cent again.



*All yields are market convention
Source: Merrill Lynch

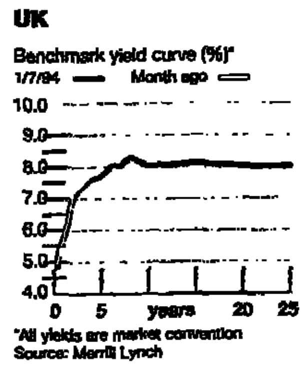
LONDON — Philip Coggan

The gilts market enters this week in a more cheery mood than for some time. Even after a setback on Friday afternoon, the benchmark 6¾ per cent 2004 issue ended the week yielding 8.19 per cent, against 8.47 per cent a week earlier.

Good economic news had spurred the market, with figures on both average earnings and retail prices showing little signs of the feared inflationary pick-up.

This week sees the publication of several economic statistics which may give a clue as to whether the rally can be sustained. June retail sales numbers on Wednesday and a second-quarter gross domestic product estimate on Friday may show that the economy is still growing strongly. If the market takes such figures in its stride, this may show that investors are prepared to accept the story of a robust economy without inflation.

The Bank's announcement on Friday that its next auction would be of conventional stock maturing between 2007 and 2011 indicated that the market's appetite for floating-rate stock and short-dated issues was limited, according to Mr Nigel Richardson, head of bond research at Yamaichi International (Europe). The Bank had to fund at the longer end, in spite of its dislike of the high yields prevailing. Full details of the issue will be revealed tomorrow.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — David Waller

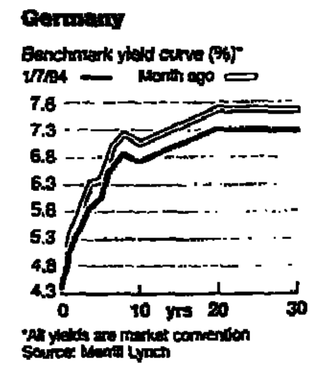
The Bundesbank's policy-making council meets on Thursday, the last time before the German central bank's summer recess. As is traditional, the meeting is the occasion for the Bundesbank's mid-year review of the development of M3 money supply – this year is especially important in view of ballooning growth in M3 since late 1993.

A dilemma for the Bundesbank has been how to justify cutting interest rates while tolerating monetary growth at more than double the 4 to 6 per cent target range. The Bundesbank is likely to modify the target range on Thursday, but there is little consensus among economists about how this may be achieved.

Traders will be less interested in the technicalities than concrete signs that the Bundesbank will be able to resume interest rate cuts in the autumn without further damage to its credibility.

In this context a "good" figure for June M3, likely to be released on Thursday, would provide evidence that money growth is subsiding. Anything under 12 per cent would be considered "good" as it would mean a decline from May's 13.4 per cent annualised, seasonally adjusted rate.

There is a chance that the Bundesbank will cut the discount rate on Thursday, but this is highly unlikely.



*All yields are market convention
Source: Merrill Lynch

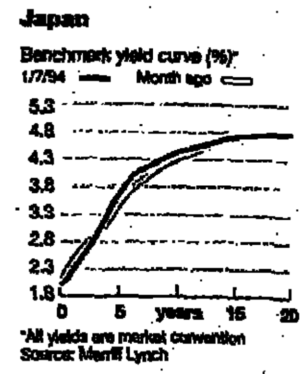
TOKYO — Emiko Terazono

Fears of over-supply are expected to weigh on Japanese government bond prices. In spite of underlying concern over fiscal expansion funded by government bonds, corporate borrowers continue to tap into the straight bond market for funds.

This week, Tokyo Electric Power, the leading electric utility, is expected to launch a Y150bn domestic straight bond with a maturity of 20 years. Meanwhile, the increase in foreign borrowers on the samurai market is also causing anxiety among market participants. The Greek government last week issued Y110bn in samurai bonds, and Greek Telecom is planning to offer its first samurai issue next month.

Without a clear indication of the state of economic recovery, traders expect the bond market to move within a narrow range this week. While the rise in consumer spending, due to the hot summer weather, and income tax cuts and supply worries continue to undermine confidence, the strong yen, the steady buying of bonds by Japanese institutional investors and expectations of a weak recovery are supporting the bond market.

Life and non-life insurance companies in June were net buyers of bonds for the third consecutive month, and traders expect further buying by the institutions if yields rise back to 4.5 per cent.



*All yields are market convention
Source: Merrill Lynch

Capital & Credit / **Graham Bowley**

Signs of a return to fundamentals

A more optimistic mood seems to have settled on the European government bond markets in recent weeks. Yields on German bonds have fallen back by almost 0.5 percentage points from their peak of 7.3 per cent in June. Last week alone, UK government bond prices rose by almost 3 per cent, despite a slight setback on Friday.

Investors may have at last begun to realise that, judging by the economic fundamentals, bonds are cheap and current bond yields attractive. Inflation in Europe remains subdued, even in the UK, which is furthest down the road to economic recovery.

"The fundamentals are at last beginning to exert themselves," says Mr Nigel Richardson, head of bond research at Yamaichi. "At some stage the rally may run into profit-taking, but reality does at last seem to be settling in."

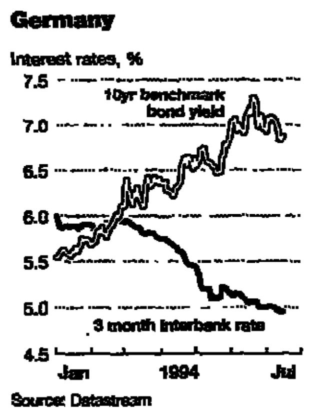
"This rally feels different," says Mr Ian Shepherdson, economist at Midland Global Markets. "There is money coming in from the US and people are talking in a different way than they did after earlier rises."

For the first time in many months, there is talk of hedge funds coming back into European markets, particularly the UK and Germany. It was these highly-leveraged pools of speculative capital which abandoned bonds so spectacularly at the beginning of the year and helped trigger the bear market.

Institutional investors, it seems, sidelined for so long by uncertainty and market volatility, are also being tempted back into bonds by high yields.

It is not surprising that the strongest performers in recent weeks – Italy, Spain and the UK – are those markets that were hit the hardest by the general bond price decline, for it is in these markets that the need for correction is greatest.

Also in investors' minds may be the thought that the rise in long-term interest rates caused by the increase in bond yields may slow the pace of economic recovery, forcing a further downward revision to growth and inflation forecasts and providing another spur to bonds.



Source: Datastream

Similarly, the recent strength of the D-Mark against the dollar implies a tightening of monetary policy, further reinforcing the low inflation outlook in Germany and in Europe generally. Many foreign investors have also been attracted into Europe by the gains offered by holding bonds denominated in currencies that are rising.

There was also obvious relief in bond markets when the US Federal Reserve did not raise short-term interest rates in an attempt to support the ailing dollar at its meeting on July 6 and following the G7 summit in Naples.

Another, simpler explanation of this month's rise may be that many institutional investors sold loss-making bonds ahead of the end of the second quarter, when they traditionally publish their financial reports, and with that hurdle passed, they have returned to the market.

However, despite the recent gains, most activity is still confined to the futures market and trading in the cash market remains thin, a sign that confidence has still not fully recovered.

Furthermore, the economic fundamentals are not radically different from what they were in the first part of this year, when forecasts of future inflation were already very low. As a result, many commentators think this rally will be short-lived.

"We cannot rule out the possibility that the rally will continue for a few days yet, but in fact nothing has changed," says Mr George Magnus, international economist at SG Warburg.

"The Fed will still raise interest rates, the psychological impact of what has been happening to currencies has gone now, and the problem of issuance remains," he says.

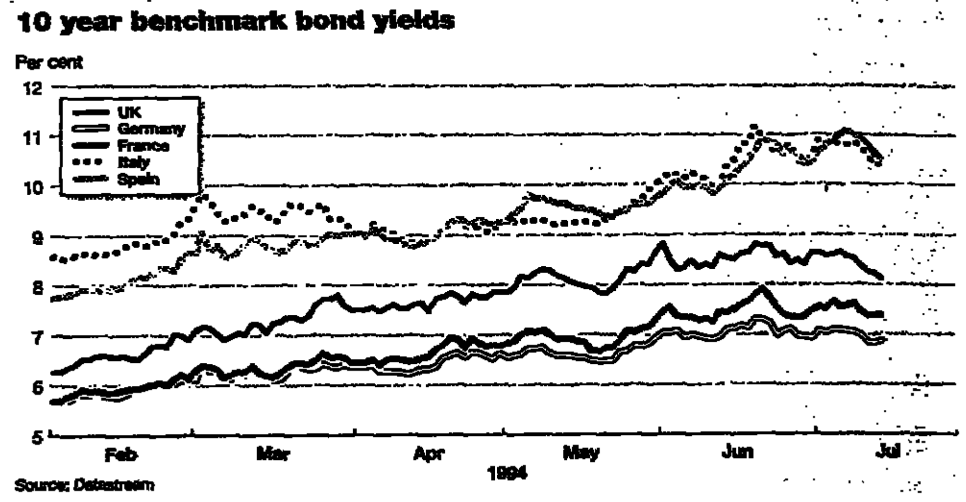
The rise in real yields has been blamed on the large supply of new bonds issued by governments to fund their huge budget deficits.

Mr Magnus estimates that the G7 leading industrialised countries will issue $102bn of gross government debt in the next four weeks. "All we are seeing is a technical bear market squeeze upwards," he says.

As has been the case throughout this bear market, opinion is divided.

There may be a real test of market sentiment this week when the Bundesbank comes to the market with an auction of 10-year bunds, after cancelling its last two auctions due to lack of demand, and the Bank of England announces details of its auction of conventional gilts, the first time it has dared to tap the longer end of the yield curve for some time.

10 year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	3.50	1.75	4.50	6.40*	7.00	5.25*
Overnight	4.13	2.13	4.75	5.25	7.87	4.88
Three month	4.38	2.05	4.75	5.56	8.18	5.10
One year	5.35	2.25	4.93	5.87	9.08	6.00
Five year	6.80	3.58	6.15	6.80	10.43	7.82
Ten year	7.20	4.35	6.81	7.40	10.47	8.17

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	102-20	102-18	-0-04	103-10	102-08	536,890	390,132
Dec	101-26	101-25	-0-03	102-16	101-13	2,684	56,735
Mar	100-29	101-02	-0-03	101-24	100-23	675	4,117

APPOINTMENTS

CONTRACTS & TENDERS

International / **Farhan Bokhari**

Small shadow over Pakistan offering

Pakistan has just begun a new fiscal year, with the government of Ms Benazir Bhutto, the prime minister, set to continue its efforts to improve the country's macro-economic performance and the quality of its foreign exchange reserves.

A policy of tight fiscal management has put much-needed brakes on excessive government bank borrowing. The budgetary deficit has been reduced to less than 6 per cent of GDP, down from almost 8 per cent, last year. Meanwhile, official foreign exchange reserves have risen to over $2.1bn, through a variety of short to medium-term borrowings. A year after last summer's political and economic crisis, the country has recovered from its all-time low reserves of below $300m.

The recovery of reserves has been helped by a three-year $1.36bn IMF loan agreed earlier this year. Next year, it is planned to cut the budget deficit to between 4 and 4.5 per cent of GDP, and to lower inflation from 10 to 7 per cent.

On the back of the past year's performance, the country is preparing to float its first Eurobond offering of $200m within the next three to four months, to convert some of its short-term borrowings into medium-term liabilities. Many analysts look upon the offer as central to the efforts of the government and the private sector to raise more funds on the Euromarkets.

Recent rises in US interest rates followed by selling pressures on international bond markets have cast at least a partial shadow over the future of the offering but senior officials argue that it's impossible for any country to synchronise its domestic conditions with international circumstances.

"When you go to the Eurobond market, particularly when you are a new entrant, you should enter from the point of view of what is the best timing for you domestically, because internationally we do not have any control," said Mr Mohammad Yaqub, governor of the central bank – the State Bank of Pakistan.

According to Mr Yaqub, the country's recent performance in economic management, recovery of foreign exchange reserves and a perception from the international community that it's moving in the right direction strengthen its case. Other officials want to relieve growing budgetary pressures which have continuously forced the country to seek large capital inflows to narrow its current account balance of payments deficit.

Almost one-third of the annual budget goes towards servicing the $23bn official foreign debt and almost Rs900bn ($30.5bn) in public sector debt owed to local banks. Officials including Mr Yaqub are convinced that a successful launch of the bond issue would help the country convert some of its foreign exchange reserves, in the form of short-term borrowings, into medium-term liabilities and provide the added cushion needed to further improve macro-economic performance.

"Going to the Euromarket is of prime importance to Pakistan, not only for the government but also for Pakistani companies," says Mr Nasir Bukhari, chief executive of Khadim Ali Shah Bukhari, a brokerage house.

This year, Dewan Salman Fibre Company, a leading Pakistani group, for the first time floated bonds worth $45m while at least another two are preparing similar ventures.

Many businessmen complain about high domestic interest rates, running up to 19 per cent, and a credit squeeze on local banks, which have made it hard to raise capital locally.

However, analysts like Mr Bukhari warn against the possibility of a weak investor response, especially after recent events on the bond markets. He wants the government to consider trimming the size of the offer and making adequate arrangements for after-market support.

The success of the offer also depends on the government's ability to carry on its economic policies in the coming year, which could be a difficult task. This year's cotton crop has suffered badly, lowering the total output to less than 8m bales from a target of 12m. Cotton is among the most important factors affecting the economy, as it generates almost 60 per cent of exports, directly or indirectly.

Some business leaders have also complained of a widening recession, which they say has been caused by tight controls on government spending. As a result, local industry has suffered from falling sales since the beginning of the year.

In spite of such concerns, the government claims it is determined to stay on course. However, for the past two years national growth figures have fallen behind target due to the cotton losses, and predicting the future remains a difficult task.

NEW INTERNATIONAL BOND ISSUES

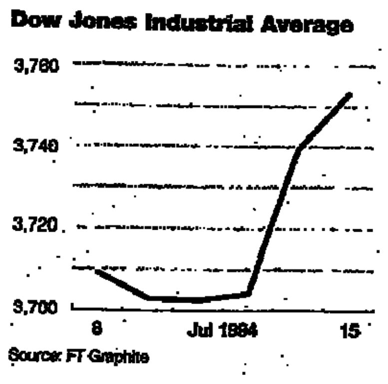
Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
STERLING							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-MARKS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CANADIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ITALIAN LIRE							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LUXEMBOURG FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EQUITY MARKETS: This Week

NEW YORK
Patrick Harverson

Investors likely to focus on results season



After last week, when the stock market reacted mainly to bond price movements, the dollar, and inflation news, investors are now likely to concentrate on the second-quarter results season, which enters its second week today.

Few corporate earnings will be as eagerly awaited as IBM's, due Thursday. Its results have long been regarded as a highlight of the season, even if its fortunes have waned in recent years, and its stock overtaken by Merck's as the bellwether of the Dow Jones Industrial Average.

IBM's shares have been under pressure, dropping 12 per cent in the past month due to growing uncertainty about what earnings will look like. Pessimists fear it will not come close to matching the 6 per cent sales growth of the first quarter, a view backed by a recent meeting between the company and analysts in which IBM suggested some sales forecasts were overly bullish. There is also some doubt that IBM has been able to make the sort of costs savings analysts regard as essential to its long-term recovery.

Consequently, Wall Street earnings forecasts vary from 50 cents to 80 cents a share, although most are at the high end of that range. But even if the figures are disappointing, the stock may not suffer a major sell-off, as the recent fall can be seen as a discounting of bad news. If the numbers are good, then a rally may be in order.

It is unlikely the rest of the market will take its cue from IBM. The days when "Big Blue" led the market up – and down – are long since over.

Other big companies will be producing results this week, and among the most keenly-watched will be the big money-centre banks, starting with Chase Manhattan today.

Citicorp, the largest US bank, will report tomorrow, and the consensus among analysts, according to the First Call service, is for earnings of $1.22 a share, up from 82 cents a year ago. Trading profits are expected to bounce back from a difficult first quarter, when turmoil in worldwide bond markets hit Citicorp's bottom line.

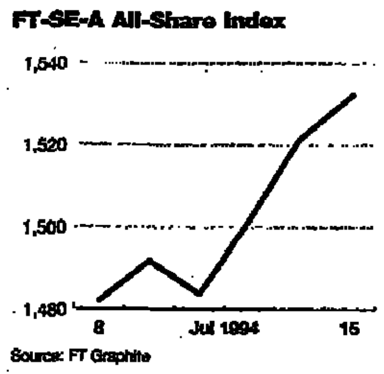
Investors this week are also likely to keep an eye on the Humphrey-Hawkins Testimony, the semi-annual appearance of the Federal Reserve chairman before Congress due to start on Wednesday.

Everyone will be keen to hear what, if anything, Fed chairman Mr Alan Greenspan has to say about the role of monetary policy in influencing the valuation of the still-weak dollar.

Analysts expect Mr Greenspan to remain silent on the dollar. They say he is more likely to repeat the warning he gave Congress a year ago – that further interest rates increases might be needed to ensure the economy does not add too much fuel to the inflationary fires.

LONDON
Terry Byland

Important role for currency in share rally



Currency factors have now turned very positive for the UK equities, and are playing an important role in the market recovery, according to analysts at several securities houses known to have the ear of continental European fund managers.

Earnings ratios on UK stocks are now the lowest of any major market, points out S.G. Warburg, which puts "sustainable" p/e ratios in the UK market at 15.15 times, compared with 16.78 in Germany and 16.21 in France. The investment bank says that London also offers the best relative cheapness to its mid-cycle p/e – the ratio generated if the net sales margin returns to its average of the last cycle.

The dollar's rally has enabled investors to turn their attention back to the fundamental attractions of economic recovery in Europe. But it is the relative weakness of sterling against the D-Mark that has triggered the sudden recovery in UK share prices.

The current DM/£ rate, now down to the lows of last February when the UK currency was still in the final throes of its exit from the ERM, offers overseas funds entry to UK equities on premium terms.

Many European investors are believed to have exited the UK market at around FT-SE 3,500 at the beginning of this year, taking their timing from the DM/£ rate rather than market judgment. The fall in the rate since then gives overseas buyers of UK stocks an effective premium of some 300 Footsie points over the average UK fund manager, according to Strauss Turnbull.

From the view of market prospects, the weighting in favour of overseas investment activity is all the stronger because, according to most London houses, UK institutions are close to fully invested and the prolonged period of anxiety over the dollar and the bond markets has left market-makers with flat trading books.

Hence the powerful squeeze on prices at present, with shares responding very strongly to the sudden recovery in stock index futures which are now routinely at a substantial premium to the underling cash market, in sharp contrast to the discounts to which unwary traders had become accustomed.

The most healthy signal from the marketplace has been the revival in retail, or genuine customer business in equities. The total of around £6.8bn for the past five trading sessions is the best the market has seen since the skids went under the bond markets.

The bid for Wm Low from Tesco is seen as a welcome indication of the weight of corporate activity likely to surface as companies with highly-rated paper move in on bid targets. Such activity is associated with a return of investment confidence in the stock market.

International offerings / Tracy Corrigan

Issuers put deals on hold as turmoil takes its toll

A growing number of international equity offerings are being postponed, cancelled, or cut in size, as the turmoil in the world's financial markets this year takes its toll.

The heavy flow of new issues in the first half of the year, despite the poor performance of underlying stock markets, has created severe indigestion in the new issues market.

According to Euromoney, international syndicated equity offerings launched in the first half of 1994 totalled $31bn. But while the flow of new issues continued unabated, despite underlying market weakness, the demand for paper has ebbed steadily.

"The recent poor performance of high-visibility deals such as Italy's Ina has sapped investor confidence, to the point where even issues priced at a discount are not necessarily attracting buyers.

In the last week, Italian savings bank Cariplo's L1,650bn offering was indefinitely postponed and South African insurance company Liberty Life scaled back the size of its $360m to $500m global convertible bond to $300m. Even then, the Liberty Life bonds have performed poorly, ending the week at 98 bid, after being priced at 100.

Smaller deals are also suffering. Ayala Land of the Philippines last week pulled its planned $100m offering of convertible bonds via Morgan Stanley. It was the company's second attempt to tap the market, having previously failed to bring an offering of global depositary receipts (GDRs).

"There are a lot of deals trying to sap up a limited amount of money, and investors are being very choosy," said one banker. "It's not market-specific; deals are being affected across all the markets."

In part, however, the problem is a seasonal one. Although last year, the market remained active throughout the summer, August is traditionally a quite month for new issues. This year, many battered investors are saying that they will not be buying new paper at least until September.

In the last few weeks, investment bankers have been spending a lot of time on the phone to corporate treasurers, explaining why deals they have been mandated to arrange should be put on hold.

For some companies, which may have already made investment decisions based on expectations of the fresh funds, there is a stark choice between postponing their offerings and selling shares at a heavily discounted price.

Some underwriters have been criticised for promising more than they can deliver, in order to win mandates. But underwriters say companies are usually understanding when they are told not to bring new issues, as the fear of a failed issue usually overrides the need for financing.

The exceptions are the sizeable number of European governments which need to raise funds through privatisations to finance deficits.

The adverse market conditions have already been exacerbated by governments no longer operating an unofficial queueing system, whereby they time their large privatisations to avoid a surplus of deals at any one time.

For cash-rich investors, there may be some bargains around. For example, India's Dr Reddys Laboratories priced an offering of global depositary receipts via Baring at a 29.3 per cent discount to Friday's close.

But even apparently cheap pricing does not necessarily attract buyers: the deal still had to be reduced from $50m to $40m.

"The only thing you can say (to companies) is let's look at it again after the summer," said one investment banker. "The stock markets are showing signs of turning around, and when the secondary market comes back, the primary market usually follows.

OTHER MARKETS

FRANKFURT

A quiet week is in prospect on the corporate front and few analysts expect any change on interest rates when the Bundesbank Council meets on Thursday for its mid-year monetary target review.

Colonia's annual meeting on Friday is expected, says UBS, to confirm the positive underlying trends that have been developing in the German insurance market so far this year.

Berliner Bank, which earlier this year merged with two others to form Germany's sixth biggest bank, holds its annual shareholders meeting on Friday.

MILAN

Preliminary details of the government's budget plans put some life back into the market late last week but investors will have to wait until after a cabinet meeting on Thursday for more information.

The market took the government's economic plans in its stride but it will start the August account today looking decidedly fragile after events on Friday, when Mr Silvio Berlusconi, the prime minister, clashed with magistrates over plans to limit their powers of arrest in corruption cases.

Cartiere Burgo, the paper and packaging group, launches its rights issue today to raise L230bn. Shares in the group fell by 4 per cent on July 5 in immediate response to the announcement and by Friday they had fallen by another 3.9 per cent.

BCI will talking to shareholders this week about plans to raise a total of nearly L2,400bn in a two-stage share and warrant issue in the autumn.

James Capel said the way the issue was being priced, at L3,000 a share – a discount of more than 40 per cent to the price at the time of the announcement in May – meant that even after the price fall over the past six weeks, it would still be at a discount of more than 30 per cent.

ZURICH

The market was still reacting on Friday to last week's disappointing half-year sales figures from Roche and the somewhat better news from Sandoz.

This week, the focus switches from the pharmaceuticals to the widely-recommended Nestlé, which provides first indications on Friday of its performance in the first half of the year.

Analysts are expecting slightly negative or flat sales, with the strength of the dollar depressing the result by 4 to 7 per cent and outweighing improvements in volumes and prices.

JOHANNESBURG

Having largely settled down following the turmoil resulting from the unexpected change in South Africa's finance minister two weeks ago, the Johannesburg SE will focus in earnest this week on the latest quarterly results from the gold mining companies, *writes Mark Suzman*.

Gold Fields of South Africa, which reported last Monday, was slightly down on the previous quarter, due largely to the effect of the South African elections and sporadic "stayaways".

Analysts expect that Gengold and Anglo American, which release their results on Wednesday and Thursday respectively, will also have been affected.

A lot of attention will be focused on the degree to which both companies have managed to unwind their outstanding forward contracts to take advantage of the higher spot price.

Their assessment of the current round of wage negotiations, which is reported to be running into some difficulties, will also be carefully studied.

Also under scrutiny will be Gencor, Gengold's parent company, which is expected to announce on Tuesday the completion of its long-standing negotiations to take control of Billiton, the mineral arm of Royal Dutch Shell.

There has been some concern that Gencor's probable purchase price of around $1bn will be seen by the market as excessive for the assets received.

However, the current turnround in the commodity cycle is seen to have improved the group's longer-term prospects.

TOKYO

The strength of the yen will continue to be the focal point among investors, as fears of US inflationary pressures still prevail among currency traders, *writes Emiko Terazono*.

The strong yen has prompted profit-taking among overseas investors, who have been the underlying force behind the recent strength of the Nikkei.

The Tokyo Stock Exchange last week said that foreign investors were net sellers of Japanese shares during July 4 to July 8, for the third consecutive week.

Meanwhile, brokers may actively buy up shares ahead of an expected allocation of public funds to the stock market this week.

Also, reports that the Japanese post office plans to release Y1,000bn from its life assurance assets to fund managers during the week, has heightened expectations of a rise in the liquidity of the stock market.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / John Murray Brown

Istanbul strives to regulate its recovery

Mr Tuncay Artun, the new chairman of the Istanbul stock exchange, is putting a brave face on Turkey's troubles. "During strife and plagues, our weaknesses are always exposed," he says in a colourful phrase, in keeping with the splendid view from his office overlooking the Bosporus.

With interest rates edging down, and the lira appreciating there are some who believe that the market may already be through the worst. But the signals are mixed.

Last week, Işbankasi, the semi-autonomous state bank, applied to the Capital Markets Board to have its A-type equity fund converted back to a general mutual fund. The move was greeted with consternation, for if Turkey's second largest bank, an institution perceived as close to the government, is seen to be reducing its equity exposure, what choice has the investor but to follow suit and shift funds into fixed interest instruments?

Caution remains the byword. The Istanbul roller coaster has been extremely bumpy: in 1993 the index outperformed almost every other emerging market, according to the IFC, the World Bank's private sector lending arm, but so far this year the collapse of the lira has wiped about 50 per cent off share prices in dollar terms.

Mr Artun likes to joke that he was "part of the package", a reference to the austerity measures unveiled by the government on April 5. Certainly, since his appointment, the index has recovered ground, gaining 9.3 per cent in dollar terms since April 14, and 36 per cent since June 14.

But the market is still driven more by short-term liquidity considerations than fundamentals. And with the government at one time selling paper at 400 per cent compounded annually, the crowding out effect on equities has been considerable.

In one area, Mr Artun seems to be making progress. Last week he announced new trading rules, extending the settlement period and doubling daily trading hours. By next April, all share trading is to be transferred to real-time, a move which is expected to boost volumes. On the regulatory side, moves are under way to change the rules applying to the A-type funds. This is intended to encourage banks and other issuers to bring extra liquidity to the market rather than shuffling equity portfolios and dumping shares of less desirable participants.

The recent currency turbulence has not been without casualties: 12 of the 112 brokerage houses are suspended and others are under scrutiny.

The authorities have reacted by tightening the rules to prevent the use of repurchase agreements which are not backed by stock. A draft circular has also been prepared to curb the use of short selling, and stock borrowing and lending or margin trading – a problem which Mr Artun describes diplomatically as "not illegal, but unregulated".

Attention is now focused on the results season due at the end of this month. Operating profits may be badly hit with the sharp contraction in economic activity. However, companies with strong cash flow, which have been able to take advantage of high interest rates to boost financial earnings, should fare better.

Much of the recent buying has been by foreigners, taking advantage of the currency correction to accumulate stock before a market re-evaluation. Mr Tom Chadwick of London brokers Smith New Court says there have been "plenty of good trading opportunities over the summer". He warns that there may still be some problems in implementing the austerity programme, but believes a recovery in 1996 has not yet been discounted.

Ms Radhika Ajmera, who runs the £40m Turkey Trust, is more cautious. She feels that the market needs some adjustment downwards after heavy buying by retail investors which has pushed the index up. Buying has been particularly heavy in stocks such as Eregli iron and steel (Erdemir), which the government is hoping to privatise.

Foreign investors would appear to be the main beneficiaries of the change in the settlement system. Because of time differences, under the old system brokers frequently found that the market closed before their foreign exchange funding requirements were known. With high overnight interest rates, this could be costly if trades failed to settle.

There are still some reservations. For example, at the end of the new afternoon session, Turkey's foreign exchange markets are all closed. "As a foreign currency investor you don't want to carry a Turkish lira position overnight," says Kaya Didman of Barings Securities.

Officials are also worried that extending trading hours may encourage greater share volatility and more margin trading. The daily limit on share movements, for example, is automatically increased to 20 per cent – which represents a 40 per cent potential price swing within a settlement period. One exchange official estimated that as much as 40 per cent of current volume was due to margin trading.

The reforms will help. But over the longer term, Istanbul's prospects will depend on the government's own finances. For only if the government can curb its spending can the market enjoy a sustained recovery.

Ten best performing stocks

Stock	Country	15/7/94 $ close	Week on week change $	Week on week change %
Eczacibasi Ilac	Turkey	0.0985	0.0271	37.90
Otosan	Turkey	2.4233	0.6246	34.73
Yapi ve Kredi Bankasi	Turkey	0.1099	0.0280	34.13
Ege Biracilik	Turkey	3.5541	0.8241	30.19
Turkiye Is Bankasi	Turkey	0.1971	0.0413	26.52
Migros	Turkey	3.3926	0.5983	21.41
Chang Hwa Bank	Taiwan	7.0735	1.0876	18.17
Alarko Holding	Turkey	0.8562	0.1275	17.49
Tanayong	Thailand	2.7455	0.4046	17.28
Good Year Tyres	Turkey	0.4804	0.0670	17.02

Source: Baring Securities

Seoul may delay ceiling rise

The good news is that Seoul's general index this year is likely to exceed its all-time record high in spite of nuclear tensions and the recent death of the North Korean President Kim Young-sam, *writes John Burton in Seoul*.

However, the bad news is that the rise in share prices may persuade the Seoul government, worried about an overheated market, to delay a proposed increase of the 10 per cent ceiling on foreign shareholdings, which has been largely filled.

Most analysts forecast that the market will break its record high of 1,007, set in April 1989, within the next few months and approach the 1,100 level by the year end.

The market's strength has been helped by a robust economy and the prospect of increased corporate earnings – GNP is expected to grow by 8 per cent following strong exports caused by the weakness of the Korean won against the Japanese yen, and a consequent increase in facility investments to meet the increased global demand for Korean cars, ships and semiconductors. The only economic worry is inflation, which could reach 6 per cent by the end of the year.

But foreign investors are hampered in enjoying the full benefits due to the 10 per cent cap on foreign shareholdings in listed companies. The government is reluctant to raise the foreign ceiling immediately because it fears that the inflow of capital from abroad could stoke inflationary pressure. Instead it has promised to raise the investment limit by an unspecified amount by the end of 1995. The finance ministry also suggested last month that it would accelerate the schedule by raising the ceiling in gradual stages to 15 per cent by mid-1995.

News round-up

■ Strategy

The performance of emerging markets over the first half of 1994 has been mixed with only the sub-Saharan region showing an improvement in local currency terms, according to research by Kleiman International, the US-based independent consultants.

Among the more mainstream markets, India saw a half year rise of 13 per cent in dollar terms, in spite of higher inflation and lower economic growth prospects.

But in Thailand, Malaysia and Indonesia falls ranged between 21 and 25 per cent.

In North Africa, Egypt advanced by 63 per cent in local currency terms helped by a pick-up in the country's privatisation programme, while Tunisia improved by 35 per cent.

■ Fund launch

A Russian equity fund is to be launched in September by Regent Fund Management, the Hong Kong-based group.

The White Tiger Investment Company will aim for a size of $20m in the first 18 months, investing in traded companies on the Moscow and St Petersburg stock exchanges, with up to 20 per cent going to the Far Eastern region centred on Vladivostok.

■ Jordan

Until now, 1994 has not been a good year for the Amman financial market, *writes James Whittington in Amman*.

Investors have been jittery over progress in the Middle East peace talks and the market has so far been stuck in a downward slide.

Last week the index fell to a year's low of 142.81 which represents an 8 per cent drop from the beginning of the year.

Local analysts believe that this poor performance is set to change as Jordanian and Israeli negotiators meet in the region today to push forward their peace talks amid real signs of progress.

They say the market has reached the bottom of its decline and an upward trend is now likely, although it will still remain highly sensitive to any disruptions in the peace talks.

● Emerging markets coverage appears daily on the World Stock Markets page

CURRENCIES
Philip Gawith

Greenspan testimony to guide dollar

The dollar will stay the focus of attention this week, with markets focusing on the Humphrey Hawkins testimony of Mr Alan Greenspan, the Fed chairman, on Wednesday.

While the US currency remains gripped by bearish sentiment, it did benefit last week from the firmer tone of US bond markets. If Mr Greenspan can convince markets that the Fed is on top of the battle against inflation, this could support the bond market rally, and hence the dollar.

Although good inflation figures and a modest rise in retail rates mean policy moves will probably wait until the next FOMC meeting on August 16, there is a possibility of a pre-emptive strike ahead of Mr Greenspan's testimony.

The Fed chairman is reputed to prefer to explain what has already been done, rather than what lies ahead.

The Bundesbank council meeting on Thursday will also be in the spotlight. The June M3 growth figure will be released earlier in the week, and with the market expecting it to fall to 12 per cent – some forecasts suggest closer to 10 per cent – from 13.7 per cent, the way may be open for the Bundesbank to cut official interest rates. Lower rates could help the dollar.

A raft of statistical releases in the UK could also support sterling. The distributive trades survey on Tuesday, retail sales data on Wednesday and second quarter GDP estimates on Friday should confirm a picture of a stronger growth trend, with inflation remaining at a low ebb.

Subject to the dollar not turning sharply lower again – this would inevitably drag sterling with it – the economic data could support a move into UK assets, evidenced by the firmer tone of UK shares and bonds at the end of last week.

In Europe markets will be watching the tussle between Mr Silvio Berlusconi, the Italian prime minister, and the anti-corruption magistrates which last week threatened to drive the lira below L1,000 against the D-Mark.

Baring Securities emerging markets indices

Index	15/7/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (288)	158.89	2.85	1.82	2.52	1.61	-9.52	-5.65
Latin America							
Argentina (20)	107.78	4.49	4.35	-1.16	-1.07	-7.60	-6.59
Brazil (22)	174.81	3.00	1.75	22.28	14.61	35.16	25.17
Chile (12)	184.99	4.08	2.26	-6.62	-3.45	37.45	25.38
Mexico (26)	131.93	-2.50	-1.86	-4.58	-3.36	-29.34	-18.19
Peru(16)	655.36	-7.38	-1.11	-87.54	-11.78	79.27	13.78
Latin America (96)	146.28	0.85	0.59	2.64	1.84	-2.96	-1.99
Europe							
Greece (13)	81.96	-1.09	-1.32	2.90	3.67	-1.14	-1.37
Portugal (16)	111.25	4.70	4.41	2.34	2.14	-0.88	-0.79
Turkey (20)	87.45	8.02	10.10	15.74	21.96	-74.26	-45.92
Europe (49)	96.00	3.33	3.60	5.26	5.80	-16.23	-14.46
Asia							
Indonesia (22)	140.96	1.09	0.78	-8.88	-5.93	-30.08	-17.58
Korea (23)	128.75	-0.23	-0.18	5.49	4.46	19.05	17.37
Malaysia (23)	212.82	5.91	2.86	-1.47	-0.68	-40.43	-15.98
Pakistan (10)	112.36	0.42	0.38	7.49	7.13	0.67	0.60
Philippines (11)	253.03	3.16	1.26	-29.67	-10.50	-68.44	-21.33
Thailand (24)	232.29	13.69	6.26	3.68	1.61	-31.26	-11.86
Taiwan (30)	164.54	8.39	5.37	12.40	8.15	10.83	7.05
Asia (143)	200.54	6.57	3.39	1.55	0.78	-20.88	-9.43

All indices in $ terms, January 7th 1988=100. Source: Baring Securities

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 15 / Sch)

BELGIUM/LUXEMBOURG (Jul 15 / Frs.)

DENMARK (Jul 15 / Kr)

FINLAND (Jul 15 / Mka)

FRANCE (Jul 13 / Frs.)

GERMANY (Jul 15 / Dm.)

ITALY (Jul 15 / Lire)

NETHERLANDS (Jul 15 / Fls.)

NORWAY (Jul 15 / Kroner)

SPAIN (Jul 15 / Pta.)

SWEDEN (Jul 15 / Kroner)

SWITZERLAND (Jul 15 / Frs.)

PACIFIC

JAPAN (Jul 15 / Yen)

HONG KONG (Jul 15 / H.K.$)

MALAYSIA (Jul 15 / MYR)

SINGAPORE (Jul 15 / S$)

AUSTRALIA (Jul 15 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Jul 15 / Can $)

4 pm close

MONTREAL (Jul 15 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Jul 15 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

FT FREE ANNUAL REPORTS SERVICE

You can obtain the current annual reports of companies annotated with ♣. Ring 081 770 0770 or fax 081 770 3822, quoting FT Japan. If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822, quoting FT Japan. The Reports will be sent on the next working day. If faxing please remember to state FT Japan and your post code.

■ TOKYO - MOST ACTIVE STOCKS: Friday, July 15, 1994

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Oil	12.2m	1190	+10
Kubota	6.0m	748	+9
Mitsubishi Hvy	5.7m	814	+5
Toa Corp	5.4m	834	+15
Sanyo Electric	5.3m	595	+17
Toshiba	3.6m	782	[illegible]
Kumagai Gumi	3.5m	523	[illegible]
Japan Energy	3.4m	490	[illegible]
Mitsubishi Elec	3.1m	709	[illegible]
Nippon Steel	2.9m	342	[illegible]

INDICES

	Jul 15	Jul 14	Jul 13	1994 High	1994 Low
Nikkei 300 (1/10/82)	303.03	302.47	300.81	311.71 13/6	268.22 4/1
Topix (4/1/68)	1699.47	1694.52	1654.53	1712.73 13/6	1445.97 4/1
2nd Section (4/1/68)	2512.93	2505.62	2494.04	2642.65 6/7	1973.33 4/1
Malaysia					
KLSE Comp.(4/4/86)	1012.11	1010.80	999.57	1314.46 5/1	928.33 4/4

** Sat July 9 : Taiwan Weighted Price 6185.27; Korea Comp Ex 956.38. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Jul 15 - 2103.54 +32.83

US INDICES

■ STANDARD AND POOR'S 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	454.10	454.60	+0.90	455.40	453.55	85,361	208,147
Dec	456.50	457.35	+0.65	457.50	455.90	708	11,700
Mar	459.90	460.60	+0.80	461.20	459.75	170	2,268

Open interest figures are for previous day.

■ CAC-40 STOCK INDEX FUTURES (MATIF) Jul 13

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	1969.5	1987.5	+32.0	1985.0	1965.5	-	303
Sep	1977.5	1935.0	+31.5	1997.0	1973.0	1,764	25,294

Open interest figures for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Texas Inst	2,546,800	80¼	-6¾
IBM	2,478,100	57	-1⅛
Ford Motor	2,422,800	31⅛	+⅛
Coca Cola	2,408,400	42¼	+⅛
Micron	2,375,300	36⅜	-1½

■ TRADING ACTIVITY

NYSE			
Issues Traded	2,825	2,826	2,836
Rises	1,196	1,655	1,164
Falls	871	551	909
Unchanged	758	620	763
New Highs	43	48	42
New Lows	38	49	51

† Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

Thornton Unit Managers Ltd - Contd.

Waverley Unit Tst Mngmt Ltd (1000)F

Whittingdale Unit Tst Mngmt Ltd (0830)F

OTHER UK UNIT TRUSTS

INSURANCES

Abbey National Life Plc

Acuma Life Assurance Ltd

Clerical Medical/Fidelity Investments

Friends Provident - Contd.

GT Unit Managers Ltd

Lancashire & Yorkshire Assce Society

Laurentian Life plc

M & G Life and M & G Pensions - Contd.

MGM Assurance (z)

Norwich Union Life Insurance Soc. - Contd.

Prudential Individual Life Funds - Contd.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

Scottish Mutual Assurance plc

Scottish Provident Group

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group - Contd.

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Target Life Assurance Co Ltd

TSB Life Ltd

Teachers' Assurance Company Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Allied Dunbar International Assce Ltd

CMI Insurance Co Ltd

CMI Insurance Co Ltd - Contd.

Sun Alliance International Life

Sun Life International (IOM) Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

Hambros Fd Mgrs (CI) Ltd

GUERNSEY (REGULATED)(**)

Wells Fargo Nikko Inv Adv Gey Ltd

Yamaichi Capital Mngt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

Dunedin Unit Trust Managers (Ireland) Ltd

GT Asset Management (Ireland) Ltd

Galacorp Ireland Limited

Hambros Fund Managers (Ireland) Ltd

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Capital House Fund Mgrs - Contd.

Coutts & Co (Jersey) Fund Managers Ltd

JERSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jul 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
New Zealand	(NZ$)				2.6057	2.5980	2.6068	-2.0	2.6154	-2.0	2.6376	-1.4	-
Philippines	(Peso)	41.2251	+0.0149	248 - 253	41.6259	40.8048	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8455	-0.02	437 - 472	5.8568	5.8367	-	-	-	-	-	-	-
Singapore	(S$)	2.3574	-0.0094	560 - 588	2.3631	2.3644	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.7143	-0.0023	116 - 169	5.7278	5.6972	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.9553	-0.106	340 - 765	7.0323	6.9336	-	-	-	-	-	-	-
South Korea	(Won)	1258.28	-3.69	778 - 874	1260.60	1256.48	-	-	-	-	-	-	-
Taiwan	(T$)	41.4245	-0.2196	107 - 382	41.5816	41.3638	-	-	-	-	-	-	-
Thailand	(Bt)	38.8871	-0.1335	615 - 126	38.9830	38.8580	-	-	-	-	-	-	-

†SDR rate for Jul 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
New Zealand	(NZ$)	1.6697	-0.003	683 - 711	1.6711	1.6656	1.6706	-0.7	1.6725	-0.7	1.6778	-0.5	-
Philippines	(Peso)	26.4500	+0.1	000 - 000	26.7000	26.1000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 506	3.7508	3.7503	3.7516	-0.4	3.7559	-0.6	3.7745	-0.6	-
Singapore	(S$)	1.5125	-0.0008	120 - 130	1.5140	1.5120	1.5112	1.1	1.5093	0.9	1.5025	0.7	-
S Africa (Com.)	(R)	3.6663	+0.011	655 - 670	3.6705	3.6540	3.6818	-5.1	3.7101	-4.8	3.7868	-3.3	-
S Africa (Fin.)	(R)	4.4625	-0.0525	500 - 750	4.4950	4.4500	4.4962	-9.1	4.555	-8.3	-	-	-
South Korea	(Won)	807.300	+0.4	200 - 400	807.500	806.800	810.3	-4.5	813.8	-3.2	832.3	-3.1	-
Taiwan	(T$)	26.5780	-0.0495	760 - 800	26.6380	26.5780	26.598	-0.9	26.638	-0.9	-	-	-
Thailand	(Bt)	24.9500	-	400 - 600	24.9600	24.9300	25.0225	-3.5	25.15	-3.2	25.63	-2.7	-

†SDR rate for Jul 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 14. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.06	16.64	4.847	2.026	4817	5.437	21.20	499.1	400.5	24.06	4.087	2.000	4.289	3.115	304.9	2.535
Denmark	(DKr)	52.48	10	8.731	2.544	1.063	2528	2.853	11.12	261.9	210.2	12.62	2.145	1.048	2.251	1.635	160.0	1.331
France	(FFr)	60.10	11.45	10	2.913	1.217	2895	3.268	12.74	300.0	240.7	14.46	2.456	1.202	2.578	1.872	183.3	1.524
Germany	(DM)	20.63	3.932	3.433	1	0.418	993.8	1.122	4.373	103.0	82.63	4.963	0.843	0.413	0.885	0.643	62.91	0.523
Ireland	(I£)	49.37	9.408	8.214	2.393	1	2378	2.684	10.46	246.4	197.7	11.88	2.018	0.987	2.117	1.538	150.5	1.252
Italy	(L)	2.076	0.396	0.345	0.101	0.042	100.	0.113	0.440	10.36	8.315	0.499	0.085	0.042	0.089	0.065	6.330	0.053
Netherlands	(Fl)	18.39	3.505	3.060	0.892	0.373	886.0	1	3.898	91.80	73.67	4.424	0.752	0.368	0.789	0.573	56.09	0.466
Norway	(NKr)	47.18	8.991	7.850	2.287	0.958	2273	2.565	10	235.5	189.0	11.35	1.928	0.943	2.024	1.470	143.9	1.196
Portugal	(Es)	20.04	3.818	3.334	0.971	0.406	965.1	1.089	4.247	100.	80.25	4.820	0.819	0.401	0.859	0.624	61.10	0.508
Spain	(Pta)	24.97	4.758	4.154	1.210	0.506	1203	1.357	5.292	124.6	100.	6.006	1.020	0.499	1.071	0.778	76.14	0.633
Sweden	(SKr)	41.57	7.922	6.917	2.015	0.842	2002	2.260	8.811	207.5	166.5	10	1.699	0.831	1.783	1.295	126.8	1.054
Switzerland	(SFr)	24.47	4.662	4.071	1.186	0.496	1179	1.330	5.186	122.1	97.99	5.886	1	0.489	1.049	0.762	74.61	0.620
UK	(£)	50.01	9.530	8.321	2.424	1.013	2409	2.719	10.60	249.6	200.3	12.03	2.044	1	2.145	1.558	152.5	1.268
Canada	(C$)	23.31	4.443	3.879	1.130	0.472	1123	1.268	4.942	116.4	93.38	5.608	0.953	0.466	1	0.726	71.10	0.591
US	($)	32.10	6.117	5.341	1.556	0.650	1546	1.745	6.804	160.2	128.6	7.721	1.312	0.642	1.377	1	97.88	0.814
Japan	(Y)	327.9	62.49	54.58	15.90	6.643	15797	17.83	69.51	1637	1313	78.89	13.40	6.557	14.07	10.22	1000.	8.315
Ecu		39.44	7.516	6.562	1.912	0.799	1900	2.144	8.360	196.8	158.0	9.487	1.612	0.789	1.692	1.229	120.3	1

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open Int.
Sep	0.6433	0.6432	+0.0001	0.6453	0.6400	61,279	99,388
Dec	0.6443	0.6438	-	0.6455	0.6407	306	3,025
Mar	-	0.6451	-0.0002	-	0.6439	7	669

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open Int.
Sep	0.7635	0.7649	+0.0014	0.7656	0.7602	24,711	47,003
Dec	0.7669	0.7662	+0.0006	0.7672	0.7629	74	1,080
Mar	-	0.7688	+0.0006	0.7691	0.7670	9	9

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open Int.
Sep	1.0199	1.0260	+0.0061	1.0291	1.0192	24,548	69,405
Dec	1.0305	1.0337	+0.0061	1.0365	1.0297	364	4,741
Mar	1.0410	1.0422	+0.0061	1.0420	1.0400	1	708

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open Int.
Sep	1.5600	1.5596	+0.0010	1.5606	1.5560	12,779	40,253
Dec	-	1.5588	+0.0008	1.5600	1.5550	364	637
Mar	-	1.5586	+0.0008	1.5600	1.5560	6	151

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.475	8.39	8.34	8.43	-	-	0.18
1.500	5.94	6.00	6.29	-	0.09	0.47
1.525	3.44	3.82	4.39	-	0.39	0.96
1.550	0.09	2.09	2.79	-	1.10	1.87
1.575	-	0.93	1.65	1.41	2.43	3.16
1.600	-	0.33	0.88	3.65	4.27	4.87

Previous day's vol., Calls 45,355 Puts 18,719 . Prev. day's open int., Calls 668,898 Puts 658,590

UK INTEREST RATES

LONDON MONEY RATES

Jul 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 4	5 - 4¾	5 - 4⅞	5 3/16 - 5 1/16	5½ - 5⅜	6⅛ - 6
Sterling CDs	-	-	4 31/32 - 4 29/32	5⅛ - 5 1/16	5⅜ - 5 5/16	5 29/32 - 5⅞
Treasury Bills	-	-	4 29/32 - 4 27/32	4 31/32 - 4 29/32	-	-
Bank Bills	-	-	4 29/32 - 4 27/32	5 - 4 15/16	5 9/16 - 5 7/32	-
Local authority deps.	4 15/16 - 4 13/16	4 15/16 - 4 13/16	4 15/16 - 4 13/16	5 1/16 - 4 15/16	5 5/16 - 5 3/16	5 13/16 - 5 11/16
Discount Market deps	4⅞ - 4¼	4⅞ - 4 13/16	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 4.9379pc. ECGD fixed rate Stlg. Export Finance. Make up day June 30, 1994. Agreed rate for period Jul 26, 1994 to Aug 25, 1994, Schemes II & III 6.44pc. Reference rate for period Jun 1, 1994 to June 30, 1994, Schemes IV & V 5.1870pc. Finance House Base Rate 5½pc from July 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Jul 15	Jul 8
Bills on offer	£500m	£500m
Total of applications	£1570m	£1725m
Total allocated	£500m	£500m
Min. accepted bid	£98.765	£98.760
Allotment at min. level	58%	99%

	Jul 15	Jul 8
Top accepted rate	4.9536%	4.9736%
Ave. rate of discount	4.9379%	4.9696%
Average yield	4.9994%	5.0319%
Offer at next tender	£500m	£500m
Min. accept. bid 182 days	-	-

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition.

■ Pound in New York

Jul 15	Close	Prev. close
£ spot	1.5610	1.5596
1 mth	1.5603	1.5592
3 mth	1.5592	1.5588
1 yr	1.5580	1.5585

FIXED INTEREST RATES

MONEY RATES

July 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	5	5¼	5⅝	6	6⅜	7.40	4.50	-
week ago	5	5¼	5⅝	6⅛	6⅜	7.40	4.50	-
France	5⅝	5⅝	5 11/16	5 13/16	6 1/16	5.10	-	6.75
week ago	5⅝	5⅝	5¾	5 13/16	6⅜	5.10	-	6.75
Germany	4.82	4.85	4.85	4.90	5.00	6.00	4.50	4.91
week ago	4.88	4.85	4.90	4.95	5.10	6.00	4.50	4.93
Ireland	5	5⅜	5⅝	6 1/16	6½	-	-	6.25
week ago	5⅜	5⅜	5 11/16	6⅜	6 1/16	-	-	6.25
Italy	8⅛	8⅛	8⅜	8⅝	9⅛	-	7.00	8.00
week ago	8¼	8¼	8½	8⅝	9⅜	-	7.00	8.00
Netherlands	4.85	4.86	4.89	5.00	5.19	-	5.25	-
week ago	4.97	4.86	4.96	5.05	5.24	-	5.25	-
Switzerland	4	4⅜	4¼	4⅝	4⅜	6.625	3.50	-
week ago	4	4⅜	4⅜	4⅞	4⅝	6.625	3.50	-
US	4⅜	4½	4¾	5⅜	5 11/16	-	3.50	-
week ago	4⅜	4½	4¾	5⅜	5 11/16	-	3.50	-
Japan	2	2	2⅛	2⅛	2⅜	-	1.75	-
week ago	2	2	2⅛	2⅛	2⅜	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	4⅜	4 13/16	5¼	5¾	-	-	-
week ago	-	4⅜	4 13/16	5¼	5¾	-	-	-
US Dollar CDs	-	4.40	4.63	4.92	5.48	-	-	-
week ago	-	4.40	4.58	4.92	5.51	-	-	-
SDR Linked Ds	-	3½	3⅜	3¾	4	-	-	-
week ago	-	3½	3⅜	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5 15/16; 3 mths: 6 ; 6 mths: 6⅜; 1 year: 6⅜. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	5 - 4⅞	5⅛ - 5	5 3/16 - 5 1/16	5⅝ - 5½	6 1/16 - 5 15/16	6¼ - 6⅛
Danish Krone	5⅜ - 5⅛	5¾ - 5½	6 11/16 - 5 9/16	6¼ - 6	6⅝ - 6⅜	6 15/16 - 6 11/16
D-Mark	4 15/16 - 4 13/16	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾	4 15/16 - 4 13/16	5 - 4⅞
Dutch Guilder	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4 13/16	5 - 4 15/16	5¼ - 5⅛
French Franc	5½ - 5⅜	5½ - 5⅜	5⅝ - 5½	5 13/16 - 5 11/16	5 15/16 - 5 13/16	6 1/16 - 5 15/16
Portuguese Esc.	12⅛ - 11⅞	12¾ - 12¼	13¼ - 12¾	13 - 12¾	12⅞ - 12⅝	12⅝ - 12⅜
Spanish Peseta	7½ - 7⅜	7 9/16 - 7 7/16	7 11/16 - 7½	7 13/16 - 7⅝	8 3/16 - 8⅛	8½ - 8⅜
Sterling	5⅛ - 5	5 1/16 - 4 15/16	6 1/16 - 4 15/16	5 3/16 - 5 1/16	5 7/16 - 5⅜	6 1/16 - 5 15/16
Swiss Franc	4⅛ - 3⅞	4⅛ - 3⅞	4⅛ - 4	4¼ - 4⅛	4⅜ - 4¼	4 9/16 - 4 7/16
Can. Dollar	5 15/16 - 5 7/16	5¾ - 5½	5 13/16 - 5 11/16	6 - 5⅞	6 9/16 - 6 7/16	7⅜ - 7¼
US Dollar	4¼ - 4⅛	4⅜ - 4¼	4 9/16 - 4 7/16	4 13/16 - 4 11/16	5¼ - 5⅛	5¾ - 5⅝
Italian Lira	9 - 7½	8¼ - 8⅛	8⅛ - 8	8 9/16 - 8 7/16	8⅝ - 8⅜	9⅛ - 9
Yen	2 3/16 - 2⅛	2⅛ - 2 1/16	2⅛ - 2 1/16	2 3/16 - 2⅛	2 5/16 - 2⅛	2 13/16 - 2 11/16
Asian $Sing	3⅞ - 3¾	3⅞ - 3¾	4 7/16 - 4 5/16	4¾ - 4⅝	5 3/16 - 5 1/16	5 13/16 - 5 11/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Sep	94.85	94.87	+0.03	94.94	94.78	180,857	453,326
Dec	94.17	94.20	+0.03	94.29	94.10	313,956	449,839
Mar	93.90	93.93	+0.04	94.02	93.82	144,678	323,106

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Sep	95.31	95.33	+0.03	95.36	95.25	3,909	21,862
Dec	94.72	94.76	+0.02	94.87	94.70	402	9,160
Mar	94.44	94.48	-	94.56	94.43	216	1,745

All Open Interest figs. are for previous day

BANK RETURN

BANKING DEPARTMENT	Wednesday July 13, 1994	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,155,564,169	-78,761,422

UK GILTS PRICES

Other Fixed Interest

STOCK INDICES

FT GOLD MINES INDEX

FIXED INTEREST STOCKS

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

Western Trust High Interest Cheque Acc
The Moneycentre, Plymouth PL1 1SE 0752 224141

£15,000+	4.75	3.56	4.84	Qtr
£5,000-£14,999	4.50	3.38	4.58	Qtr
£1,000-£4,999	4.25	3.19	4.32	Qtr

NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	TSB	5.25
Bank of Baroda	5.25	Girobank	5.25	●United Bk of Kuwait	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	Unity Trust Bank Plc	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Western Trust	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Heritable & Gen Inv Bk.	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25		
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	* Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of London Investment Banking Association
* In administration

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

LONDON SHARE SERVICE

BANKS

	Notes	Price	W'k% chnge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl		£21⅞	-1.3	Q51%		ф Sep May	1.9	-
ANZ A$		200½	7.1	Q20c	0.7	Jan Jul	9.12	-
Abbey National	N☐	411	4.1	14.8	2.1	May Oct	14.3	5411
Allied Irish I£	‡N☐	251	3.3	Q52%	2.7	Oct May	28.2	1354
Anglo Irish I£		57xd	11.8	Q17.9%	1.7	Jan Jul	6.6	1365
Asahi Y		793	0.3	Q14%	ф	Jun Dec	12'92	3049
Banco Bil Viz Pta		£14¼	3.3	Q27.2%	2.7	JyOcJaAp	7'93	-
Banco Sant Pta		£30½	—	Q38.5%	2.0	MyJyOcJa	30.10	-
Bk Ireland I£	‡☐	274xd	4.6	Q13.3%	3.2	Jul Dec	16.5	1380
Bank Scotland	‡N☐	191	7.3	5.05	2.4	Dec Jul	16.5	1742
9¼pc Pf		118¼	1.1	9¼%	-	May Nov	25.4	1462
9¾pc Pf		123¼	1.0	9¾%	-	May Nov	25.4	1685
Barclays	‡N☐	534	6.1	15.15	1.6	Oct May	14.3	1754
Dai Ichi Kan Y		£12⅛	0.4	Q18%	3.2	Jun Dec	27.9	-
Deutsche DM		£302½	3.0	Q30%	-	May	5'93	-
Espirito Santo		£18⅜	1.4	Q120e	5.2	Jun	6'93	6187
First Nat Fin	N☐	85	—	1.5	-	Mar Aug	17.1	2571
6.3pc Cv Pf		78xd	-1.3	6.3%	-	Jul Jan	6.6	2570
7pc Cv Pf		129½xd	-1.9	7.0	-	Jul Jan	6.6	1488
Fuji Bank Y		1304	1.1	Q17%	ф	Dec Jun	7'93	-
HSBC HK	N☐	744½	8.5	23.5	2.4	Nov Jun	14.3	2788
HSBC (75p Shs)	N☐	727	9.2	23.5	2.4	Nov Jun	14.3	2778
Lloyds	N☐	557	4.7	22.1	2.1	Oct May	14.2	3171
Mitsubishi Y		£17⅛	0.2	Q17%	ф	Jun Dec	12'92	-
Mito Tst & Bk Y		1048½	0.7	Q18%	12.4	Jun Dec	12'92	-
Mitsui Tst & Bk Y		789½	3.7	Q17%	5.5	Jun Dec	12'92	-
Nat Aust A$	†	538½xd	6.5	Q58c	1.7	Jul Jan	21.6	-
NatWest	N☐	470	8.0	18.5	2.1	Oct May	28.2	3463
Ottomane FFr		£23½	—	Q125%	ф	May	25.5	-
Ryl Bk Scotland	‡†N☐	401xd	-2.2	12.0	1.9	Feb Jul	16.5	3874
Sakura Y		£8⅞	0.9	Q17%	3.0	Dec Jun	12'92	-
Sanwa Y		£14½	-1.0	Q18%	ф	Jun Dec	12'92	-
Standard Chartd	N☐	268	8.9	6.0	3.2	Jun Oct	28.6	4094
7 3/8pc Prf		93½	1.6	7.37	-	Apr	14.2	1719

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£25¾	-5.5	Q375c	1.9	Oct Apr	31.3	–
Barlow	Z	645½xd	1.4	Q18c	–	Jul	20.6	–
Gold Flds Prop R		103	4.0	Q50c	1.2	–	31.1	–
MK Props	s	85	–	Q44.7c	0.3	Feb Oct	19.10	–
SASOL	♥	395	16.5	Q78c	–	Oct	23.9	3919
SA Brews		£12¼	3.1	Q155c	2.2	Dec Jun	30.5	–
Tiger Oats	†	637xd	-2	Q85c	2.9	Jul Feb	6.6	–
Tongaat-Hulett		670xc	3.4	Q85c	2.4	Feb Aug	4.1	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Redrow (Bldg Cnstrn), Fleming Indian Ord & Wrts, Johnson Fry Euro Utls Ord & Zero Pf (Inv Tsts), Northern Leis Cv Db 98/01 (Leis & Htls) and Intermediate Capital Grp (Other Fncl). Deletions: Smith (WH) B (Rtlrs General) and WMC Ord & 7¾pc Pf (Pap Pckg & Prntg).

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2972. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.

An International service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close July 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17⅝	13¾	AAR	0.48	3.5	462	32	13⅞	13¾	13⅞	
16⅞	13	A L Labs A	0.18	1.3	31	38	13⅝	13⅜	13⅝	+⅛
73	57⅝	AMP	1.68	2.3	25	1739	71⅞	71⅝	71¾	-¼
72¾	52⅛	AMR			31	3081	63	62	62¼	-⅛
5	3⅜	ARX			12	29	3¼	3⅝	3¼	
58⅛	38⅝	ASA	2.00	4.4	29	321	45⅛	44⅞	45	
31⅜	25⅜	AbbtL x	0.76	2.7	18	9252	27¾	27½	27¾	
13¾	11⅜	Abitibi Pr	0.50	3.9	9	737	12¾	12½	12¾	+½
23⅝	17¼	ABM Ind x	0.52	2.7		17	19¼	19⅛	19¼	+⅛
13¾	11⅛	Acptncsis			24	6	13⅛	13¼	13⅛	
31	22¾	ACE Ltd	0.44	1.9	3	30	23⅝	23⅝	23⅝	
12½	10⅛	ACM Gvt In	1.09	10.1		358	11	10⅞	10⅞	
10⅛	7⅞	ACM GvOpp	0.80	9.6		69	8¼	8⅛	8¼	
10⅝	8	ACM Gvt Sp	0.96	11.8		134	8¼	d8	8⅛	
12	9⅛	ACM Gvt Se	1.09	11.5		307	9⅝	9½	9½	
11¾	8¾	ACM Man	1.08	11.8		239	9¼	9	9¼	-⅛
8¾	6	ACM Managd	0.72	8.7		27	8¼	8⅛	8¼	+⅛
15½	8¾	AcmeClv	0.44	3.8	14	84	11⅞	11¼	11⅝	+¼
9¼	6½	Acme Steel			5	20	8⅛	8	8⅛	+⅛
28¾	23	Acordia	0.60	2.2	13	28	26⅞	26⅝	26¾	
9⅜	5¾	Actava	0.35	4.1	2	166	8⅞	8⅝	8¾	
15⅝	11¼	Acuson			96	157	13	12¾	12¾	-⅜
18⅜	16½	Adams Expr	0.48	2.8	0	49	17¼	17⅛	17⅛	
64	46½	Ad Micro	3.00	5.6		468	55⅛	53⅛	53⅞	-1⅜
31¾	16¾	AdvMic	3.00	11.9	10	6534	26⅛	25	25¼	-⅞
8⅞	5	Advest Grp	0.16	3.1	8	35	5⅛	5⅛	5⅛	-⅛
20	15	Advo Inc	0.10	0.6	116	166	17½	17¼	17½	+⅜
57¼	49⅜	Aegon ADR	2.95	5.4	12	37	54¾	54⅝	54⅝	-1

[illegible]

Continued on next page

4 pm close July 15

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
		Continued from previous page								
6½	4⅞	SafewayWG6				153	6⅛	6⅛	6⅛	-⅛
57⅞	47⅞	StJoePaper	0.20	0.33	15	134	u60¼	58¾	60	+3
30¼	25	StJosL&P	1.80	7.0	13	14	25⅞	25¼	25¾	+¼
45	37¾	StPaul	1.50	3.7	4	1359	40⅞	40¼	40⅞	+⅛
9⅞	6	Salant Crp			8	38	6⅛	6¼	6⅜	+⅛
49⅞	34⅝	Sallie Mae	1.40	4.0	7	2323	35¼	34¾	34¾	-⅞
13⅞	11⅞	Salomon Br	0.28	2.3		72	12⅜	12¼	12¼	
52¾	43	Salomon	0.64	1.5	5	3909	44⅝	43⅜	43⅝	-⅝
25	17½	SnDgSE	1.52	7.7	10	608	19⅞	19¼	19¾	+¼
10	7½	SantaFeERs	0.16	1.7	9	637	9⅝	9⅜	9½	
15⅛	13½	SFeGd				853	14⅛	13⅞	14⅛	+⅛
40	31½	SantaFePac	2.80	8.0	16	228	35¼	34¾	35	+⅜
26¼	18½	SanFeP	0.10	0.5	10	2413	20	19⅝	19¾	-⅛
26	19⅜	SaraLee	0.64	3.0	14	9854	21¼	20⅞	21	-¼
50⅛	42⅛	Scana Corp	2.82	6.4	11	571	44⅛	43½	44⅛	+¼
20½	12½	Scecrp	1.00	7.8	9	4357	12⅞	12¾	12⅞	+⅛
40½	31¾	SchererRP			25	78	34⅛	33⅞	34	-¼
69⅞	54½	SchPl	2.04	3.3	14	3914	62½	61¾	62½	
62⅝	50¾	Schlmb	1.20	1.9	25	6815	u63	61⅞	61⅞	-⅛
33⅞	23¾	Schwab(C)	0.28	1.1	12	1122	26⅜	25⅞	25½	-⅝
10⅞	6⅛	Schwitzer			25	38	8⅞	8½	8¾	-⅛
38⅞	24⅞	SciAtl	0.12	0.3	70	849	35⅜	35	35	-¼
16⅞	13	Scotsman	0.10	0.7	13	15	14⅝	14¼	14¼	-⅛
53¾	37¼	ScottP	0.80	1.5	13	1038	51¾	51½	51⅝	+¼
28⅝	18⅝	ScudderNAsF	0.21	0.9		321	23½	23	23	+⅛
12⅝	9½	ScudderNEuF	0.16	1.6		58	10¼	10⅛	10⅛	-⅛
18¼	13½	SeaCnB	0.70	4.4	7	9	15⅞	15⅜	15⅞	
18½	14⅞	SeaC1 4625	1.46	9.4		9	15⅝	15⅝	15⅝	
32	26¼	Seagrm	0.56	1.8	39	2482	30⅝	30⅜	30½	
29¾	23	Seagull En			36	144	28	27½	27½	-⅛
31⅝	26⅝	Sealed Air			22	71	29⅜	28¼	28¼	-¼
55⅛	42⅛	SearsR	1.60	3.3	7	9380	47⅞	47⅛	47⅞	+⅜

NASDAQ NATIONAL MARKET

4 pm close July 15

AMEX COMPOSITE PRICES

4 pm close July 15

FT GUIDE TO THE WEEK

18 MONDAY

Middle East peace talks

Jordan and Israel hold their first peace talks in the region since the Middle East peace process was launched in 1991. The talks will focus on borders, security, water, energy and the environment and will pave the way for the first public summit between King Hussein of Jordan and Yitzhak Rabin, Israeli prime minister, in Washington on July 25.

Palestinian and Israeli negotiators also reconvene in Cairo to begin the "early empowerment" talks which will lead to an extension of Palestinian authority over civil administration in the West Bank beyond Jericho.

Bosnian peace plan: The Bosnian Serb assembly in Pale, the Serb stronghold, and the Moslem-Croat parliament in Sarajevo are to meet today, the eve of the deadline set by the international community, to reject or endorse the plan to divide Bosnia along ethnic lines.

European agricultural ministers resume battle today over farm prices and milk quotas for the coming 12 months. They will also discuss a proposal from Mr Rene Steichen, EU agriculture commissioner, to tighten restrictions on British exports of beef carcases from herds which have been free of the disease for six years rather than the current two because of the threat of bovine spongiform encephalitis, or 'mad cow' disease.

Japan's Diet begins an extraordinary session (to July 22). Prime Minister Tomiichi Murayama makes his inaugural policy speech, followed by questions from the ruling and opposition parties.

Gyula Horn, Hungary's prime minister, makes a one-day visit to Bonn, his first after being elected last Friday. Germany is Hungary's most important trading partner in Europe and Horn will be hoping for more substantial commitments about future membership of the European Union.

Rolling settlement: The London Stock Exchange introduces rolling share settlement, ending the 173-year old system of account periods. From today, deals will have to be settled within 10 days, with first settlement day August 1. The plan is then to move to 5-day settlement early in 1995 – or as soon as feasible. The prospect of same-day settlement hovers at the turn of the century.

Investor protector: The Personal Investment Authority, the UK's new watchdog to protect the private investor, becomes operational. Intended to improve the regulation of retail financial services, it has been the subject of much controversy and only grudging acceptance by many in the sector – Standard Life, the UK's largest mutual life insurer, last week signed up to the PIA in spite of earlier opposition.

FT Survey: South Africa.

19 TUESDAY

OECD employment outlook

The Paris-based Organisation for Economic Co-operation and Development, the group of leading industrialised countries, publishes its annual Employment Outlook. It is expected to elaborate on several of the themes spelt out in the recent OECD Jobs Study. Both reports underscore the necessity for OECD societies to enhance their ability to adapt to structural change to achieve the twin goals of higher employment and good jobs.

EU Commission presidency:

The recently-elected European Parliament, holding its first plenary session in Strasbourg, is expected to vote this week on the appointment of the president of the European Union Commission. Last Friday, the council of ministers chose Jacques Santer (above), the prime minister of Luxembourg, for the post. He is to address the parliament on Thursday, and the vote will follow.

The inauguration of Ukraine's new president Mr Leonid Kuchma takes place today. Mr Kuchma seems to have decided that market reforms are the only solution to Ukraine's economic problems, but how far he is prepared to go will not begin to unfold until the new government is assembled.

Saleroom: Books and memorabilia from the Moscow flat of the late Kim Philby, the "third" man among the Communist spies at the heart of British Intelligence, come up for sale at Sotheby's in London. There are typescripts of his memoirs and talks he prepared for training KGB agents, as well as photographs and trophies given to him by the Soviet government. Also included are books he inherited from another defecting spy, Guy Burgess.

Santa Clauses from all over the world descend the chimneys of Copenhagen to convene for their annual congress (to July 21).

FT Surveys: Japan and Monaco.

20 WEDNESDAY

Five years of house arrest

Aung San Suu Kyi, the Burmese pro-democracy leader (left), ends her fifth year under house arrest and begins her sixth. The anniversary is likely to be marked by human rights activists around the world, especially in neighbouring Thailand, where many Burmese exiles live and where south-east Asian foreign ministers gather at the weekend for their annual meeting.

Burma's military junta, however, shows little sign of being prepared to release Ms Suu Kyi. Her National League for Democracy convincingly won an election in 1990 – although she was already detained – but the armed forces, in power since 1962, ignored the results.

Shimon Peres, Israel's foreign minister, sets foot for the first time publicly on Jordanian soil, joining Warren Christopher, US secretary of state, and Abdul-Salam al-Majali, Jordan's prime minister, to symbolise recently renewed momentum in Israeli-Jordanian peace talks. The meeting, two days after the start of detailed negotiations, is set to take place in the Jordanian desert north of Aqaba.

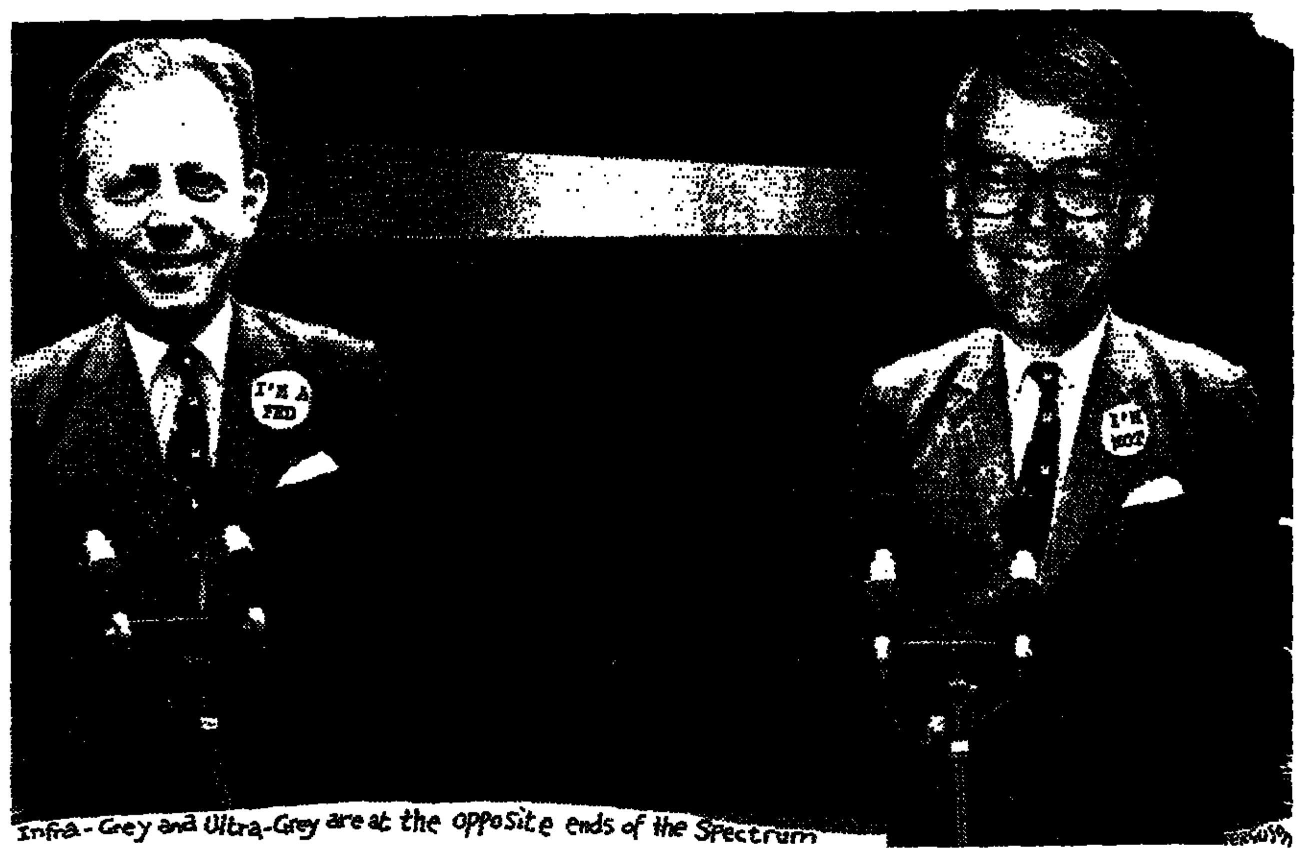
President Nelson Mandela of South Africa visits Britain for celebrations to mark his country's re-admission to the Commonwealth.

Moon landing: The world remembers the first moonwalk 25 years ago. Coming soon is the 25th anniversary of the first game of golf on the moon.

German resistance: A series of nationwide ceremonies will take place to mark the failed bomb plot against Adolf Hitler in 1944. Many are angry that the occasion, usually the cue for much soul-searching, has been hijacked by Chancellor Helmut Kohl who will make a speech in Berlin, and has been trying to blot out the role played by left-wingers and communists who resisted Hitler alongside the better-known aristocrats.

Some 5,000 people were arrested and many were executed after the bomb blew Hitler's conference room and trousers to bits but failed to kill the Führer.

UK economy: June's retail sales data will give further evidence of consumers' ability to absorb April's tax increases. So far, the effect has been milder than many feared, and the Treasury forecasts consumer spending will be up 3.1 per cent this year. Nevertheless, retail sales were static in May and analysts expect the annual growth figure to fall from May's 3.9 per cent to 2.9 per cent in June.



Infra-Grey and Ultra-Grey are at the opposite ends of the Spectrum

21 THURSDAY

UK Labour party leadership

Britain's Labour party announces the result of a contest to succeed the late John Smith as leader. Tony Blair, the young and modernising home affairs spokesman, is expected to win, but there is a close contest for the deputy leadership between two more traditional socialists: Margaret Beckett, the interim leader, and employment spokesman John Prescott.

Commons recess: Britain's lower parliamentary chamber, the House of Commons, rises for its summer recess, returning on October 17.

A US State Department conference takes place today to mark the 50th anniversary of the Bretton Woods financial conference and the institutions it set up (the International Monetary Fund and the International Bank of Reconstruction and Development).

Tonight, a new London evening newspaper launches today. About 100,000 copies of the paper will be distributed free to central London commuters on weekdays and will be the first competition to the Evening Standard since the closure of the Evening News in 1987. Mr Geoff Steggals, chief executive of Tonight, said the aim was to provide a bright, cheerful read.

FT Survey: Albania.

Cricket: First Cornhill Test, Lord's: England v South Africa (to July 25).

Holidays: Belgium (National Day).

22 FRIDAY

Asean ministers meet

Foreign ministers of the six members of the Association of South East Asian Nations (Asean) – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – hold their 27th annual meeting in Bangkok (to July 23). Also there as observers and guests will be Vietnam, Laos, Cambodia and Burma.

The ministerial meeting is followed on July 25 by the first Asean regional forum, which includes the US, China and Russia.

No place in the sun: German members of parliament, who like every upstanding German take their holidays very seriously, are fuming about having to drag themselves back to Bonn for a special session of the Bundestag.

Parliament has been recalled to throw its weight behind the constitutional court decision last week which, for the first time since the second world war, allows German soldiers to take part in United Nations' operations outside the Nato area. The extra sitting will cost about DM150,000 ($92,000) and grumpy deputies say the vote could just as well take place in September.

UK economy: The first estimate of second-quarter gross domestic product is released today. Analysts are expecting quarter-on-quarter growth of 0.8 per cent, which, combined with first quarter growth of 0.7 per cent, will put the economy ahead of target for the Treasury's full-year forecast of 2.75 per cent.

23-24 WEEKEND

Japan and S Korea consult

Japan's prime minister Tomiichi Murayama is to travel to Seoul on Sunday to hold discussions with South Korean President Kim Young-sam on the situation in North Korea, following the death of President Kim Il-sung.

Mr Murayama's Social Democratic party has backed the idea of closer relations with North Korea, but Mr Murayama has promised to support the United Nations sanctions against Pyongyang if it refuses to allow international nuclear inspections.

Ukraine's parliamentary by-elections take place today in more than 100 constituencies which failed to elect members in last April's elections.

There are 450 members to be elected and therefore a change in the parliament's character, which is currently dominated by leftist hardliners, is possible.

Athletics: The Goodwill Games begin in Russia's second city, St Petersburg, on Saturday and will continue until August 7.

Polo: England's smart set converge on Windsor for International Polo Day. At half-time, spectators are invited to step on to the field to tread in the divots of turf kicked up by the ponies' hooves.

Compiled by Patrick Stiles and Angela Bleasdale. Fax: (+44) (071) 873 3194.

ECONOMIC DIARY

Other economic news

Monday: The UK Treasury's mid-year forecast of the Public Sector Borrowing Requirement was perceived as quite conservative, so analysts will be watching today's figures for June's deficit to see if the government is likely to undershoot its £36bn forecast for 1994-95. June's PSBR is expected to be £3.7bn.

Wednesday: While M0 growth has been racing away beyond its monitoring range, growth in M4, the government's broadest measure of the money supply, has been subdued. Figures published today are expected to show the trend continuing, with annual growth edging up to 5.5 per cent in June, from 5.3 per cent in May. The more erratic sterling M4 lending figure is expected to show net new lending of £1.3bn in June.

Thursday: The UK's trade balance has been improving slightly in recent months and the non-European Union trade deficit in June, released today, is expected to have dropped to £700m in June, from £767m in May. Also published today: the British Chambers of Commerce quarterly economic survey, which is expected to reflect businesses' concern about rising costs.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Jun money supply (M2, cash dep)**	1.5%	1.7%
July 18	Japan	Jun broad liquidity**	-	3.2%
	Japan	Jun w'sale price indx, 1st 10 days	-	-0.2%
	UK	Jun pub spending borrowing req	£3.7bn	£4.3bn
	Canada	May manufacturing new orders*	0.4%	3.4%
	Canada	May manufacturing shipments*	0.7%	1.7%
Tues	US	May trade: goods & services	-$8.5bn	-$8.4bn
July 19	US	May merch'ise trade, bal of pay'ts	-	-£13.3bn
	US	May merch'ise trade, census	-$12.3bn	-$12bn
	US	May, merch'ise exports, census	$41.4bn	$41bn
	US	May merch'ise imports, census	$54bn	$53bn
	US	Johnson Redbook, w/e July 16	-	-0.7%
	Canada	May merch'ise exports*†	1.5%	2.4%
	Canada	May merch'ise imports*†	2.3%	3.6%
	Canada	May wage settlement rises	0.5%	0.4%
Wed	US	Jun housing starts	1.48m	1.51m
July 20	US	Jun building permits	-	1.36m
	UK	Jun retail sales*	0.3%	0.0%
	UK	Jun retail sales**	2.9%	3.9%
	UK	Jun M4*	0.2%	0.3%
	UK	Jun M4**	5.5%	5.3%
	UK	Jun M4, lending	£1.3bn	£1.5bn
	UK	Jun bdg sty net new commitments	£3.25bn	£3.3bn
	Canada	May retail sales*†	0.8%	-1.7%
	Sweden	Jun trade balance	SKr6.5bn	SKr5.5bn

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Thur	US	Initial claims, w/e July 16	355,000	363,000
July 21	US	State benefits, w/e July 9	-	2.77m
	US	July Philadelphia Fed indx	-	16.1%
	US	M2, w/e July 11	$9.2bn	$9.2bn
	Japan	May income, workers**	-	1.3%
	Japan	May consumption spending	0.4%	-0.9%
	France	Jun consumer prices indx, final**	-	1.8%
	France	May trade balance	FFr6.5bn	FFr7.6bn
	UK	Jun trade balance, ex EC	-£700m	-£767m
	Canada	May wholesale trade*†	0.4%	0.5%
Frid	US	June treasury budget	$14bn	-$32.1bn
July 22	France	May industrial production*†	0.3%	2.1%
	UK	2nd qtr gross domest prod, prelim**†	3.2%	2.9%
	UK	Ditto, qtr on qtr	0.8%	0.7%
During the week...				
	Germany	Jun producer prices indx*	0.2%	0.2%
	Germany	Jun producer prices indx**	0.7%	0.4%
	Germany	Jun M3, from 4th qtr base	12%	13.7%
	Germany	May trade balance	DM5.3bn	DM6bn
	Germany	May current a/c	-DM2bn	-DM1.8bn
	Italy	May industrial production**, not†	-	-1%
	Italy	May producer prices indx**	3.1%	3%
	Italy	May wholesale price indx**	2.9%	2.7%
	Denmark	Jun consumer prices indx**	2.1%	1.9%

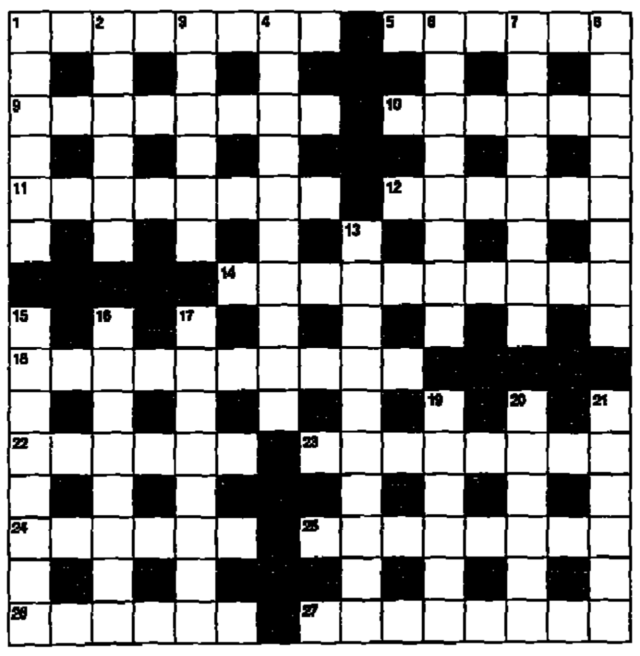
*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD
No.8,508 Set by GRIFFIN

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. *Solutions by Thursday July 28, marked Monday Crossword 8,508* on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday August 1.

Name..

Address..



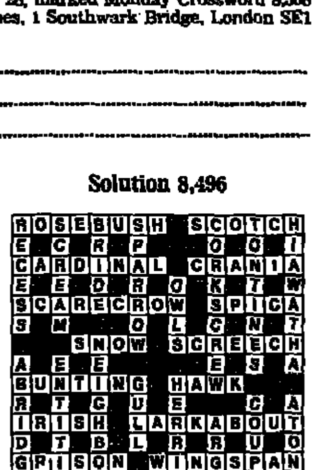
ACROSS
1 Girl's jewellery found on the fish counter (8)
5 Overlook a smithy on a sort of square (6)
9 Allowed in now Ted's holding Tim back (8)
10 Programme is behind time and different (6)
11 Reasoning with fine man on board (8)
12 Ask one new vet in (6)
14 Praise for remark about cracked lip (10)
18 Teacher heard mates running around (10)
22 One has prisoner in vehicle turn over (6)
23 Descendants of doctor in Chile start nursing (8)
24 Carrying affair on I call sarcastic! (6)
25 Witty retorts from salesman are taking Lawrence in (8)
26 Understand the fish is outside (6)
27 Daisy, love, I had a heavenly body! (8)

DOWN
1 Suit warms up redhead in it (6)
2 Soldiers going to sea to stay (6)
3 New recruits it's wearing to accept (6)
4 You'll see many bloomers in this new home (10)
6 Groan about mould on fabric (8)
7 Rising, say Lent is not exactly for non-Jews (8)
8 Irritable artist against going into burlesque (8)
13 Unable to talk, having lost one's notes? (10)
15 Blow getting in by midnight, that's appalling! (8)
16 One standing by the kerb, light-headed? (8)
17 One million staff admitting it is rude (8)
19 Like plan to drop article on relaxation (6)
20 If right inside must find cave (6)
21 Mean to get one to name nurse (8)

Winners 8,496

Ms B. Wadely, London SW14
K. Aikison, Kendal, Cumbria
Mrs J.M. Geraghty, Houghton Regis, Bedfordshire
T.J. Meaney, Solihull, West Midlands
E. Morrison, Coleraine, Co Londonderry
Mrs J. Wight, Bromham, Bedford

Solution 8,496



FT writers assess the new South Africa's prospects through its first 100 days and beyond

FINANCIAL TIMES SURVEY

SOUTH AFRICA

Monday July 18 1994

A powerful spirit of unity

South Africa's politicians must still show they can deliver their promises, but with a charismatic leader at the helm their luck may hold, say **Patti Waldmeir** and **Michael Holman**

President Nelson Mandela and Deputy President F.W. de Klerk after the inauguration ceremony at the Union Buildings in Pretoria on May 10 *Picture: Reuter*

It has been one of the most extraordinary political transformations of the twentieth century: South Africans have defied the logic of their past, and broken all the rules of social theory, to forge a powerful spirit of unity from a shattered nation.

Nearly three months after the national catharsis which liberated black and white alike – the April 27 all-race elections – they remain dazed, proud, happy and surprised. They can hardly believe their luck.

That new-found confidence is fragile, and news of the resignation of Mr Derek Keys, finance minister, the man who taught South Africa to believe in itself – has deflated the national mood. But even the departure of Mr Keys (he will step down from October) could not seriously undermine the politics of common purpose which has united South Africa. Having wrought a miracle, against all the odds, South Africans are eager now to go on to even greater feats of political magic.

In a land of profound faith, and belief in one or many deities, South Africans very often adopt the vocabulary of the miraculous to explain what has happened. A right-wing Afrikaner says President Nelson Mandela, who has driven the process of unification with such wisdom and vision, is "a gift from God." He suggests that Mr Mandela is like the crooked stick in the Bible: God can do much good with him, though he be flawed.

Even the least sentimental political analysts speak of luck and magic. Columnist Simon Barber, writing in the Johannesburg newspaper Business Day, says South Africans "passed through the looking glass" at the moment of Mr Mandela's inauguration. "In that instant, their country became the mirror image of its former self. No longer a pariah but, in a world of Bosnias, Somalias and Rwandas, a beacon."

Mr Cyril Ramaphosa, secretary-general of the African National Congress, puts it even more simply: "The gods smiled on the ANC" – not because the ANC won power, but precisely because it did not win too much power too soon.

"The four years we spent in negotiations helped to let a lot of ideas mature in our own heads and hearts, to accept sitting down with De Klerk in a government of national unity..." he explains. "We were a little bit giddy... and I think we could have made mistakes. So, with hindsight, we played out a grand strategy but maybe some aspects of it we stumbled upon and found our way through the dark."

What they stumbled towards, during those four years of endless talk and bestial violence, was the shared vision of a new South Africa which emerged so powerfully in the wake of the remarkably peaceful elections. Hardly anyone dissents from that vision: certainly not South Africa's former rulers, the National Party, who so far seem to define their interests identically with those of the ANC. And not even the normally fractious Inkatha Freedom Party, full participant in the coalition government of national unity, or the white right Freedom Front, which has remained outside the cabinet but taken seats in all other constitutional structures.

That vision has taken shape in the Reconstruction and Development Programme, a grand blueprint to transform South African society, to re-invent government and re-define patterns of ownership, influence and power. Says one businessman who fully supports the programme: "The RDP has replaced apartheid as a grand social project. People talk about it as a kind of holy thing, beyond debate – at least in its goals."

Those goals go well beyond mere socio-economic development: building 1m new houses, electrifying 2.5m homes, redistributing 30 per cent of the land, bringing clean water, education and health to South Africa's poor. The broader goal is to re-invent South Africa in its entirety: a brave new non-racial world must be created where the main institutions of society – the civil service, the security forces, the business community, the universities, the media, the stock exchange, the banks – are no longer dominated by whites.

The culture of government must change: the feudal arrogance of the National Party past, which bred obsequiousness in civil servants and sapped the general population's will to resist, must not be repeated. Mr Bobby Godsell, political analyst and industrial relations director for the giant Anglo American Corporation, says South Africa's new rulers must "behave differently" and break the cycle of the past. A senior ANC minister argues that government must keep its integrity – even more than keeping its promises.

The transformation has barely begun. Mr Ramaphosa says: "Though we have achieved power at a formal level, we still do not have our hands on the levers of power throughout government structures." Ministers speak of paralysis in government as politicians fight to master the civil service machine and, more importantly, as they tussle with newly-elected provincial premiers who have shown a remarkable degree of independence.

Ultimately, the success of the RDP will depend on the creation of a more efficient and responsive civil service, and provincial governments which can effectively deliver development. But ministers point out that not only has the RDP given South Africans a shared vision; it has provoked a shared sense of risk, across the political spectrum within the multi-party government of national unity, and beyond.

"All of us have to deliver the goods," says Mr Jay Naidoo, minister charged with overseeing the RDP. "It's not going to help the National Party if Hernus Kriel [NP premier] fails to deliver the goods in the Western Cape, or if Frank Mdladlose [Inkatha premier] fails to deliver the goods in KwaZulu Natal. "If the RDP does not succeed, the NP is as much responsible as the ANC," he concludes.

Continued on Page 3

IN THIS SURVEY

- **Production Editor: Philip Sanders**
- **Photography: Ashley Ashwood**

Three men will shape the destiny of South Africa: President Nelson Mandela and Deputy Presidents Thabo Mbeki and F.W. de Klerk. Below, they talk to **Patti Waldmeir** and **Michael Holman** about national unity, economic development and the many difficult challenges which lie ahead

A powerhouse for the region

Question: Why should Financial Times readers invest in South Africa?

Answer: South Africa is potentially a rich country... with developed infrastructure, modern ports, a sophisticated banking system, a telecommunications system. It can be a powerhouse for the southern African region.

Investors in this country are likely to derive maximum benefit, far more than investing in other areas. South Africa is far more advanced than any of our neighbouring states and therefore to invest in this country you will be helping to raise the living standards of not only the people in South Africa, but in the southern African region.

Why invest in South and southern Africa rather than East Asia?

We have taken precautions to ensure that investors have a maximum return for their investments. Nationalisation was a fundamental part of ANC policy. But in order to attract investments it was clear to us that we had to make a very significant shift; if we did not, we would not get investments. There will be no expropriation of foreign investments. Investors will be free to repatriate dividends and if an investor sells his business, he will be able to export those proceeds. We believe in keeping our tax rate low so as to attract foreign investment. That's a decided advantage...

What are the prospects for a social contract in South Africa?

I don't know if I would call it a social contract. But there is an agreement between labour, capital and the government. The harmony that exists between ourselves in the ANC and big business is striking. The support we have had from business, had it not been for that support... we probably would not have had such a landslide victory.

Are you surprised at the degree of powers claimed by provincial premiers?

Our own people are demanding some form of federalism. Whereas it was the Inkatha Freedom Party of Chief Buthelezi, the National Party of Mr de Klerk that was demanding it. Now it is our own people demanding independence from the central government. We are happy about that. All that we're concerned about is that there should be free movement of goods, services, capital and labour.

Why did you decide on a government of national unity, and will it continue after the five years set out in the constitution?

There is a long history here, starting from our experiences in prison. The moment we arrived at Robben Island, there was debate amongst Afrikaner warders, some saying let's treat these people harshly so they must respect white supremacy, others saying... we must treat them in such a way that when they win it should not be a government of retribution. We adopted a policy of talking to the warders and persuading them to treat us as human beings.


President Nelson Mandela


Deputy President F.W. de Klerk


Deputy President Thabo Mbeki

And that is a lesson that one of our strongest weapons is dialogue. It has been a very powerful weapon. Our people accepted this, because throughout the history of the ANC, the idea of nation-building, of a non-racial society, has been uppermost. And we have now implemented that through a government of national unity. So far as continuing this government after five years, we have an open mind; we're very flexible.

Could you articulate your vision of the RDP?

Well, it wants to address the basic needs of the masses of the people: to ensure that our people lead a better life, to ensure that everybody has a job; that everybody lives in a decent house; that there is free, quality education; that there is electricity in every home; clean, healthy, running water; that there are sporting and recreation centres; that there are paved roads in our areas.

But the RDP also addresses the question of nation-building. [Through the RDP] we are appealing to whites. Remain in our country, don't take away your skills. The RDP is intended not only to address the basic needs of the majority, it is actually to set the minority free, free from fear of retribution. It is a programme to transform the whole South African society.

A Truth Commission in a country where the previous government still holds power is unusual. Do you worry such a commission might, as deputy president De Klerk has warned, prove divisive?

The ANC has twice the combined strength of the IFP and the National Party, so if we wanted to we could just run the government, but we are not doing that. We are committed to making the government of national unity something which has got a substantive content. As far as the Truth Commission is concerned, we have made it clear that we have no intention of retribution. We are doing this in order to heal the wounds of the past. People must know what crimes were committed and that we have forgiven those crimes.

Is the spirit of national unity strong enough to survive these pressures?

Recently I went to the most powerful congregation of the Dutch Reformed Church in Pretoria. There was a time where if you went to the DRC, you would need a whole police force to protect you from being attacked. They needed a police force to protect me from the love of the people. You would think I was in Soweto. Everybody wanted to touch me. And the whole idea of national unity has attracted a positive response from all segments of the population.

Aren't you in danger of not satisfying your [black] constituency at the end of your first year?

This is a process. The people are justified in having these exaggerated expectations when they see whites enjoying rights and opportunities that are denied them. From inside the country, forces are being mobilised to enable us to start this programme.

I can assure you, as we said during the elections, that we promise no miracles. We want you to understand that it is going to take time for us to mobilise the resources... But what is important is that a few days after a new cabinet was set up, the process of trying to address problems started, and I can tell you that the co-operation in the GNU is impressive.

Don't you underestimate the role of the front-line states in ending apartheid?

That, actually, I don't agree with. The people – men, women and children – inside South Africa who came out into the streets, called strikes; stayaways, who were shot and killed by the racist South African Police; they are the people who kept the fires burning, and eventually brought down tyrants.

When do you think the NP finally realised that it was majority rule or nothing?

You can't put a date and say on the particular day they realised; gradually, they came to accept that majority rule was unavoidable. But you must understand that it takes a long time for concepts to be accepted because even now, without in any way being discourteous to the NP, they still think that they are in the majority because they would like us to consult them on everything we do.

But de Klerk is a man who means well and when we point out to him: "Look, don't go too far, we are the majority party," he accepts that.

Accommodating participants

Interview with F.W. de Klerk, deputy president:

Question: How well is the government of national unity working?

Answer: It got off to a good start. All the participants are going out of their way to be accommodating. I have identified a number of issues where... one might experience problems: the question of a truth commission; how should we deal with the past; the question of affirmative action; the whole land issue is going to be a very emotional and sensitive one for years to come.

But the whole question of economic policy has basically been breached: it is clear that economic and financial policies will be based on principles which can ensure economic growth, which will build investor confidence, which will continue to maintain inflation at acceptable levels, so in that I find proof that we can and will also reach accommodation with regard to other important issues.

Has South Africa ended up with a federal constitution, through the back door?

I've always said this is essentially a federal constitution. What is happening now is just proof of that.

What is the role of the National Party?

One of fully participating in the government, putting aside our differences... I'm not saying that on specific issues it will not become necessary for us to say we have to consider our position on this very important issue as a party, but so far it hasn't been necessary. So the ministers and I would be playing the normal role that you play irrespective of which party forms the government...

But the NP intends also to be an effective opposition. Obviously, one will be inhibited by the fact that one is also participating. It is for this reason that policy frameworks are important. Because once you have agreed on policy frameworks, the political debate, aimed at the next election, is to say "Our policy is better. We had to make a compromise, yes, but vote for us next time and you'll get a better policy."

Will you still need a government of national unity after the five years entrenched in the constitution?

I personally think that five years might be too short. Even if the concept of power sharing were to be weakened in a final constitution, because I don't think it will disappear, I believe it is quite probable that South Africa will move to the situation of so many European countries, where on the basis of proportional representation you will have coalitions because of the election results and because no single party gets more than 50 per cent of the vote.

Reform struggles ahead

Interview with Thabo Mbeki, deputy president:

Question: Is there a commitment in society to fundamental change?

Answer: One of the things that happened over the past few years, unplanned I think, was because of the length of time that it took from the first official public negotiations to elections, some consensus was built about some things so everybody fell within the same framework.

Everybody wants to get rid of apartheid and the consequences of apartheid: there are certain things that are so glaringly bad that there is nobody in the country, whether different parties or different strata of society or whatever who are going to differ about certain basic things... but the issue of the transformation of the civil service, for example, is not by any means going to be very easy. There are people who've been in the civil service for a very long time, they know a particular kind of civil service with a particular manner of operating, and you want to change that. I'm sure there is going to be a very big struggle about that.

I think theres going to be a very big struggle to change patterns of ownership, management control of the direction of the economy. We might all of us appear to be saying the same thing now, a more equitable distribution of wealth and all of that. But in substance how do you get there?

Do you believe there should be legislation to ensure that the corporate sector participates in the reconstruction and development programme?

I think you need both moral and political pressure and perhaps in certain instances legislation. It will need to be a mix of measures, it will not be one thing that you do. You might have to pass legislation with regard to some matters, and with regard to other matters you might introduce an incentive system.

Do you see power-sharing being entrenched in a final constitution?

I think once you have moved some distance with regard to addressing the outstandingly glaring iniquities of the apartheid system and that's gone and society looks a little better, it's not so divided... this must result in people beginning to focus on what might be ideological, political, philosophical differences among themselves. You might have alternative strategies for growth, for all sorts of things.

The parties which could unite against apartheid and maintain that unity when dealing with the consequences of apartheid, once you have gone beyond a certain threshold people in the same party find that they have different ideas... and you get a new political alignment. I think that is inevitable.

Economic policy must deliver stable growth and jobs, says **Tony Hawkins**

East Asian 'miracle' is needed

No matter how one crunches the numbers, it is obvious that the fate of the new South Africa lies in the hands of foreign investors, bankers and fund managers.

This is little more than a statement of the obvious in an increasingly integrated global economy, but also a result of a capital outflow of some $25bn since the mid-1980s. Reversing this capital outflow is the top priority, since foreign capital is likely to make all the difference between sluggish growth of 2.5-3 per cent annually and expansion of at least 5 per cent a year.

Recognition of this unpalatable reality has bred a new consensus within the African National Congress to accept the inevitable trade-off between fiscal and monetary discipline on one hand and social upliftment spending programmes on the other.

That consensus remains firm, despite the unwelcome news that Mr Derek Keys, finance minister, has decided to resign, from October. He leaves behind an overtly pro-business, supplyside budget that will do little for populist expectations in the short term; and an economic team which gives every sign of carrying on his policies without him.

At the same time, the foreign capital issue is splitting the country into two camps, with many in the business establishment urging the new administration to lift at least some exchange controls and abolish the financial rand.

"With a sound conservative budget behind us, commodity prices improving and massive world support and sympathy, there will never be a better time for dropping the finrand," says one banker who also warned: "The climate for exchange control liberalisation is not going to get any better".

"The cute money" he adds, "is waiting for the second shoe to drop, for the inevitable decline in the commercial rand, before taking the plunge." The danger is that this could turn out to be a self-fulfilling prophecy as foreign investors watch and wait for exchange controls to be loosened.

Having achieved the seemingly impossible on the political front, President Mandela's new government now needs an economic miracle. South Africa must become the first non-

South Africa ranks 93rd in terms of human development

Asian country to replicate the East Asian miracle of growth with equity.

The numbers in this year's United Nations Human Development Report underscore the challenge. South Africa, with a gross domestic product of $120bn and one of the world's 25 biggest economies, ranks 93 in terms of human development, and sixtieth in terms of income a head. The UN says that if white South Africa were treated as a separate country, it would rank 24th in the world, just below Spain, while if the same were done for black South Africa, it would rank 123rd, just above Congo and behind Lesotho, Zimbabwe and Vietnam.

The sheer unsustainability of such comparisons, now that the black majority is in the driving seat, highlights the formidable nature of the economic challenge. It is not just a matter of jerking the economy back on to the relatively high growth path of the 1950s and 60s – 5 per cent annually – which will be difficult enough, but of restructuring it to ensure substantially greater participation for those marginalised for the past 300 years.

East Asian experience shows this can be done although whether South Africa is ready for the sacrifices this will involve is another matter.

With the commodity cycle having passed its trough, the global economy on the mend and South Africa's investment climate looking better than at any time for at least 40 years, the economy is poised for a period of sustained growth.

Even so, few economists believe that growth of more than 2.5-3.5 per cent is on the cards for the next two years, while for the rest of the century, a battery of constraints – the cumulative legacies of apartheid, the balance of payments, unsustainable levels of domestic debt, the shortage of skills and the need to restructure manufacturing – will keep expansion below 5 per cent annually.

At issue is the new government's capacity to impose restructuring while simultaneously delivering on the social front. In the first post-apartheid budget last month, Mr Keys set a near-perfect example. Given the constraints on fiscal expansion – a budget deficit of 6.6 per cent of GDP at a time when the country is teetering on the edge of a domestic debt trap – the minister focused on reallocating public spending rather than raising taxes to fund social upliftment programmes. He managed to find R2.5bn ($700m) in savings from normal departmental votes to finance the ANC's Reconstruction and Development Programme (RDP), while leaving unscathed those earning less than R50,000 ($14,000) annually.

The RDP is the instrument designed to redress the ills of apartheid – the yawning chasm between white and black living standards. The government has "pencilled in" RDP spending of R37.5bn over the next five years on health, education, housing and land. The plan is that government's contribution will be leveraged by private sector contributions, especially in housing, by the parastatals – high-density township electrification and telecommunications – and by foreign donors.

The Keys rubric – avidly shared by others in the government's economic team – is that spending overruns on normal departmental votes will erode the "pot of money" available for such social programmes.

While initial market response to the budget was favourable, it was not long before second-thoughts sur-

Dr Stals has set three conditions for financial rand abolition

faced. Some of this had more to do with global developments than the budget, but in the words of one government adviser: "The markets don't trust us... Because there is no track record, we have a credibility problem."

But while the confidence factor is certainly critical at this stage, there is more to it than that. Almost everyone wants to see exchange controls and the financial rand abolished, but while many in the business community believe this can – indeed must – be done soon, ministers and their advisers are much more cautious.

The central bank governor Dr Chris Stals, has set three conditions for financial rand abolition: that the discount on the investment currency falls below 10 per cent; a substantial reduction in financial rand balances, estimated at R4.5bn, held with the banks; and, most important of all, a build-up in the country's foreign reserves, which in May had fallen to R7.2bn, some five weeks import cover.

These three conditions are unlikely to be satisfied this year and possibly not until mid-1995, or even beyond. However, the critics warn that an overly cautious administration will always find reasons to delay. Their argument stands and falls on the assumption that the end of the financial rand would spark huge capital inflows, without which the economy will remain stuck in the slow lane.

Government economists, question whether now is the time for a "leap over the cliff" that could end in tears with interest rates of 30-40 per cent, the commercial rand down a further 20 per cent and the government's credibility in tatters.

Countries such as Kenya, Uganda and Zimbabwe have all shown that exchange control liberalisation can result in exchange rate appreciation and a rapid increase in reserves. But Mr Keys believes South Africa is different, with wealthy individuals, cash-rich corporates and institutional investors just waiting for the opportunity to invest offshore. Officials point out that South Africa is not as under-borrowed as often suggested, noting that while foreign debt is only a modest 14 per cent of GDP, if foreign holdings of equities, and fixed interest securities, are added in, the ratio doubles.

Dr Stals questions whether South Africa is ready for "the burden of convertibility" – the impact that premature exchange control abolition might have on the exchange rate, inflation, wages and interest rates.

It is ironic that the private sector, so insistent that now is the time for "an economic leap of faith like the constitutional agreement", is more pessimistic about the economic fundamentals – inflation, growth and the new administration's capacity to impose fiscal discipline, than the government. Private sector economists believe not just that the trough of the inflationary cycle has passed but that inflation,

The really tough decisions will come next March

which touched a 21-year low of 7.1 per cent in April, edging fractionally higher to 7.2 per cent in May, could be back in double-digit figures before the end of 1995. There are real reservations, too, about the fiscal strategy. The 1994 budget is a stop-gap affair; the really tough decisions will come next March when the new minister will have to act on the advice of the recently-appointed Tax Commission, on such issues as zero-rated valued added tax for basic foods, equal tax treatment for women and inflation-adjustment taxation to minimise fiscal drag. All are very worthy causes in their own right, but each one comes with a price tag at a time when the RDP is certain to bulk large on the spending side of the ledger.

All of this suggests that the markets will have to live with the uncertainty surrounding the future of the financial rand for least another nine months. In the meantime, after a poor first six months, the economy is picking up, but with growth of little more than 5-5.5 per cent over the next 18 months, unemployment is set to worsen while living standards stagnate.

"It all comes back to track records," says an industrialist. "If the government gets the next budget as right as this one, and exchange controls go early next year, we could be on our way..."

President Mandela's problem is that he doesn't have a year or two in which to await meaningful results. Its not that expectations are excessive but that the new administration must deliver soon in the fields of township electrification, housing, more school places and improved social services, but also on the key issue of jobs.

The World Bank estimates that half the country's black workforce is without formal sector employment. Optimistic as ever, the Bank believes that given appropriate policies, including wage restraint and fiscal discipline, this ratio could halve within 10 years.

If President Mandela can deliver jobs on this scale, he will indeed have performed a remarkable double-whammy – an economic as well as a political miracle. But in the 1990s world of jobless growth this has the ring of mission impossible.

KEY FACTS

Area	1,221,038 sq km
Population	39.5 million
President	Nelson Mandela
Currency	
Average exchange rate	1992 $1=R 2,850
	1993 $1=R 3,264

ECONOMY

	1992	1993
Total GDP 1990 prices (Rm)	257,701	260,555
Real GDP growth (%)	-2.1	1.1
Annual average % growth in		
Consumer prices (%)	14.0	9.7
Gold production (%)	2.8	n/a
Manufacturing production (%)	-3.1	0.1
Average earnings (%)	15.4	11.1
Total reserves minus gold ($m)	862	925
Money growth (M3)	8	7
FT-A index (%) Gold [2]	-29.4	170.8
FT-A index (%) Industrials [2]	4.6	27.7
Public sector deficit (% of GDP)	7.8	6.9
Foreign debt (% of GDP)	14.4	14.2
Current account ($bn)	1.4	1.8
Merchandise Exports ($bn) [3]	23.6	24.0
Merchandise Imports ($bn)	18.2	18.0
Main trading partners (%) [4]	Exports	Imports
Germany	6.0	15.1
Japan	5.8	9.3
US	5.4	13.1

(1) Commodities for South African consumption (2) Year end
(3) Including gold (4) Share of world trade 1992
Sources: Datastream, EIU, National sources

Powerful spirit of unity

Continued from Page 1

A senior National Party minister concurs: "Unless we develop the country, we all fail.

"The need for development is so overwhelming that it overrides party political differences," he says, arguing that such differences are a luxury which South Africa can ill afford.

Deputy President F.W. de Klerk, the leader of the National Party, has outlined a strategy of what might be called "constructive opposition" but is constrained by his presence in the coalition government from too vigorous dissent.

In practice, true opposition is likely to come not from the National Party, or even from the less cosily entrenched Inkatha Freedom Party, but from within the ANC itself – from the provincial premiers, who have scented power and will fight the ANC-led central government for more of it; and from Mr Ramaphosa, who has remained outside the cabinet to build his own constituency within the party itself.

He has defined his role as "keeper of the soul of the ANC" – watchdog over the implementation of the RDP, and check on the governing party's natural tendency to assume the arrogance of power.

For although the temptation may be for the government of national unity to act as if it rules a one-party state, South African society is likely to prove too plural – and the political system too balanced – to allow that in the end.

Ironically, despite constitutional guarantees of overriding power to central government, political realities – not least of them the lust for power of provincial premiers from the ANC – seem to be bringing federalism to South Africa through the back door.

Provincial premiers are flouting the authority of central government and exercising even those powers which the constitution denies them. And the centre seems to think it imprudent to resist.

However bitterly the principle of federalism was resisted by the ANC – and often by the National Party – at multi-party negotiations, everyone now agrees that tension between the centre and the provinces is a healthy sign of emerging democracy.

Only time will tell whether dissent will be so welcome once South Africa emerges from its current honeymoon to face the sad reality that economic growth may simply be insufficient to support the RDP's goals; that foreign investment may be slow to materialise; and that political power may not be enough to shift the burden of underdevelopment.

Economic realities may yet defeat the politicians in their desire to do good. But for the moment, they still believe in miracles. And with Nelson Mandela at the helm – surely one of the greatest leaders of the twentieth century – maybe, just maybe, their luck will hold.

Corporatism has been embraced with relief, writes Tony Hawkins

Love-in that may not last

After generations of often bitter confrontational economic management, with government, labour and big business at each other's throats, it is hardly surprising that South Africans should have embraced the corporate state with a mixture of enthusiasm and relief.

Even the sceptics concede that the smooth transition owes much to the forum system where different stakeholders – in the economy, in housing, health and education – sat around the table in an effort to sink their differences and work out compromises.

All three sides of the "golden triangle" – government, business and the unions – are keen to build on such past successes as the National Economic Forum, responsible among other things for securing consensus in the difficult and complex negotiations over last year's General Agreement on Tariffs and Trade submission for the Uruguay round.

All sides were conscious of what was at stake in the decision to lower tariffs radically over the next five years – markets, exports, jobs and industrial peace. But the system worked, setting what many see as a model for the future.

Those with memories of failed experiments in corporatism – the UK in the 1960s and 1970s – have their reservations. The concept is riven with internal contradictions. Take, for example, the contradiction between the ANC's commitment to anti-trust legislation and a more active competition policy, and tax measures in the last two budgets designed to encourage businesses to reinvest. Threats to clip the wings of big organisations conflict with measures encouraging them to reinvest.

A second, more serious, potential weakness is the economic management crunch that is bound to come during the five-year life of the national unity government. The ANC has a mandate to restructure the economy. In this process one – or both – of the other two sides of the triangle is going to get hurt.

Sooner, rather than later, too, ministerial impatience with government by forum and consensus will develop. The government's commitment to implement – not just announce – important social programmes during its first 100 days in office, is vulnerable to delay as the number of participants proliferates.

Above all, there is a question mark over the ANC's willingness to share power, not just with defeated political opponents but with the unelected representatives of what many on the left see as the old enemy, big business.

For the present the love-in between business and government looks rock solid, but the third side of the triangle seems to be increasingly suspect. Mr Derek Keys, finance minister, agrees that there is little prospect of a compact with labour, but hopes for a tacit, unspoken deal that would link wages with productivity. Employers are less sanguine, noting the tendency for wage settlements to average out at two or three percentage points above the inflation rate.

In early July, negotiators in the mining industry were a full 10 points apart, with employers determined to keep the 1994 wage round in single figures while the unions were demanding 18 per cent.

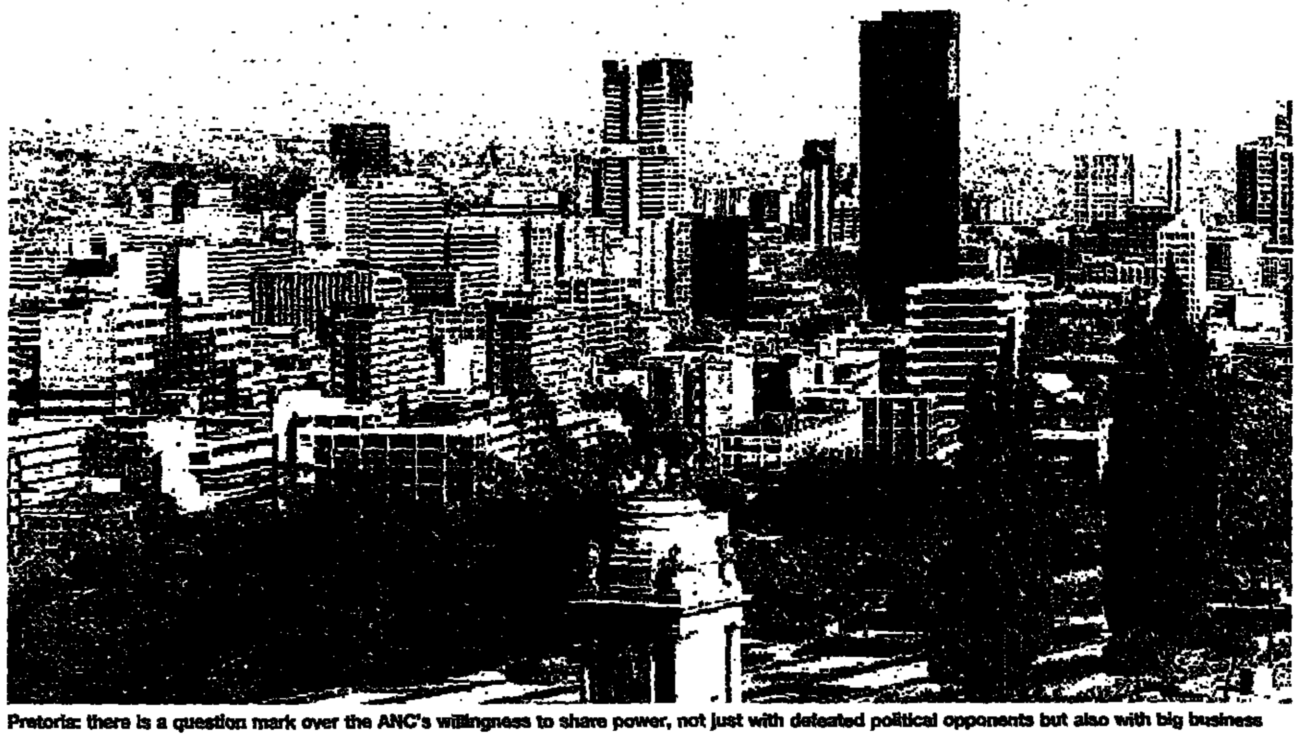
Management worries that now the top echelon of union leaders has moved off into politics and government, there is a very real danger that – even if wage agreements are reached – the unions will lack the capacity and credibility to sell the deal to their members.

Some 1.2m working days were lost to strike action in the first half of 1994 – the country's worst industrial relations performance for seven years. While this was partly attributable to pre-election disruption, it also reflects wage disputes which, according to industrial consultants, Andrew Levy and Associates, accounted for one third of the stoppages. The danger here must be that labour, which played a crucial role in bringing down apartheid, will push hard for an immediate, substantial, liberation dividend. Ministers and employers believe this will not happen, arguing that labour leaders are more preoccupied with job security than wage levels, but the current trend of above-inflation pay awards will put this thesis to the test.

Government has a similar, if less acute, problem in terms of ensuring that what is agreed at central government level is translated into action by provincial administrations and parastatals. This too, is an inherent weakness of corporatism – the difficulty of ensuring that all the main players stick to their agreements. Some larger employers, for example, accuse their smaller colleagues of conceding unnecessarily high wage claims.

Missing from the golden triangle – if central bank independence is to be a reality – is one of the key actors. As many in business voice their impatience over the Reserve Bank's caution on exchange control liberalisation and abolition of the financial rand, while anxieties surface over inflationary wage claims and job generation, the role of the central bank becomes increasingly crucial to the success of corporatism.

In many countries, corporatism has foundered on this issue – the refusal of the monetary authorities to accommodate wage inflation, to lower interest rates – to boost output and employment – and the need for tight monetary policy to counter fiscal weakness. In the new South Africa, that too will become a crunch issue.



Pretoria: there is a question mark over the ANC's willingness to share power, not just with defeated political opponents but also with big business

Profile: The economic team. Two reformed socialists and a conservative banker make up the troika which drives South Africa's economic revolution

Figure of flawless orthodoxy

In the bad old days before the government of national unity, Mr Jay Naidoo had an unfortunate habit of looking like Satan, sounding like Marx and acting like Mephistopheles, writes Patti Waldmeir.

But those days are long gone now, and his image has been transformed.

With his well-cut suits and carefully tailored vocabulary, the new-look Mr Naidoo – formerly head of the largest union federation, Cosatu, and now minister charged with implementing the Reconstruction and Development Programme (RDP) – is a figure of flawless economic orthodoxy. The firebrand trade unionist and militant socialist of the past has become a persuasive advocate of fiscal and financial discipline.

With just a hint of American twang in his accent, he might be a missionary from the World Bank, pushing its gospel of structural adjustment – except for one crucial difference, which he highlights forcefully: Mr Naidoo believes he has society on his side.

Mr Naidoo, who turns 40 this year, describes South Africa's own brand of structural adjustment, the RDP, as a "shared partnership between government and civil society", a vision which unites all the parties in the coalition cabinet.

But his commitment to the RDP, which is fervent, goes

Jay Naidoo: the former militant socialist has become an advocate of fiscal and financial discipline

well beyond the simple intention to spend money. "Overriding everything in this country is going to be the fact that this is how much money we have, these are the constraints," he says.

He constantly insists that it is not an "add-on" programme: "The RDP is... about how to reorganise government expenditure to meet new priorities. We are turning the ship of state around to those new priorities... but we must do so while ensuring that we maintain stability."

Hard choices lie ahead, he says, and conflict is probably inevitable. "But I spent my whole professional life mediating conflict," Mr Naidoo points out, referring to his role as Cosatu general secretary during 1985 to 1993: the toughest years of union-management antagonism. Those years honed his rhetorical and political skills to the point where he earned the grudging respect of business; they also taught him pragmatism.

Nothing could have prepared him better for the difficult years to come.

Alec Erwin: fiscal moderate with a fervour and passion which few orthodox economists could equal

Discipline 'vital to strategy'

"Alec Erwin was sent by God. Jay Naidoo, I embrace him." Mr Derek Keys, the outgoing finance minister, has been overheard to utter such praises about the two men – ironically, both former socialists – who have been his lieutenants, writes Patti Waldmeir.

Now that troika is breaking up, with Mr Keys ceding his place to Mr Christo Liebenberg, a respected banker. Mr Liebenberg is untested as finance minister; but Mr Erwin and Mr Naidoo, reconstruction and development minister, have already done much to prove their credentials as fiscal moderates.

Indeed, to hear Mr Erwin, deputy minister of finance, defend the need for discipline – with a fervour and passion which few orthodox economists could equal – is to believe that his conversion is genuine.

"You simply cannot meet people's basic needs if you generate rampant inflation. It would be totally counterproductive to our goals if we let inflation rise," he says with earnestness and conviction.

"Our commitment to fiscal discipline isn't just there because it looks good," he told his first press briefing after entering public office. "Fiscal discipline is fundamental to the strategy."

He reiterated the same message less than 24 hours after the announcement that Mr Keys would resign, obviously eager to reassure investors that South Africa's commitment to fiscal discipline would not depart with the minister.

Even so, time will test that commitment sorely. And the loss of Mr Keys – who worked with Mr Erwin and Mr Naidoo for the past two years to develop an agreed economic vision based on discipline – could prove a serious blow.

The new troika will lack the rapport built up by the previous team during tough months of negotiations in the national economic forum, the business-labour-government body which brought corporatism to South Africa. And Mr Liebenberg will wield far less political clout than the wily and shrewd Mr Keys.

But Mr Erwin is clearly keen to make things work. Once a doctrinaire socialist – he comes from Cosatu, the black union federation – he has made his peace with capitalism.

Mr Keys was surely right: Mr Erwin was an inspired choice.

A widely respected banker

The decision by Mr Derek Keys, finance minister, to step down in October for personal reasons caused panic in the financial markets when it was announced this month, but his chosen successor, Mr Christo Liebenberg is likely to prove a capable replacement, writes Mark Suzman.

Mr Liebenberg, who is presently acting as Mr Keys's understudy before the incumbent leaves, fits all the requirements for finance minister. He is a widely respected banker with strong private sector credentials, a sound understanding of the economy, and a tough, conservative attitude to fiscal discipline.

"He's a journeyman executive. He's capable and will work hard at the job," observes one banker. "A very good back-room man," notes another businessman who has worked with him. "He understands the issues, works through them carefully and delivers the goods."

Mr Liebenberg, a career banker, started work in the mail room of a Nedbank branch and slowly worked his way up the ranks. En route, he picked up managerial qualifications from the Institute of Bankers, Dale Carnegie, Insead and Harvard, and built up a solid reputation as a dedicated and hardworking executive.

In 1989 he became Nedbank's

Christo Liebenberg: a sound understanding of the economy and a tough attitude to discipline

managing director and in 1990 he was appointed chief executive of Nedcor, South Africa's fourth-largest banking and financial services group, a post from which he retired in February of this year after a solid stint at the helm. He has no previous government experience and will be expected to bring business acumen rather than political skills to the post.

Although affable and good humoured, Mr Liebenberg is seen as both less charismatic and less cerebral than the ebullient Mr Keys and he will find it more difficult to win people over to his point of view. One probable result of his appointment will be a change in the balance of power in the government's economic policy team.

Whereas Mr Keys was unquestionably the dominant figure in the troika composed of him, Mr Jay Naidoo, and Mr Alec Erwin, the new arrangement will likely be more of a gathering of equals. Mr Liebenberg's lower international profile will also allow the other two to increase their exposure within the global financial community.

Michael Holman reports on housing expectations

Voters' crucial yardstick

Mr Joe Slovo, former ANC guerrilla chief and chairman of the South African Communist Party, holds what is arguably the toughest job in South Africa: he has to implement the African National Congress election promise to build at least 1m low-cost houses in five years.

Apart from setting this ambitious target, assisted by a R12.5bn state subsidy, the party also vowed to "transform and upgrade" the 411 migrant workers' hostels which house 1m residents, and bring electricity to at least 2.5m homes by the year 2000.

A government white paper setting out ways to meet these targets is due to be published in the next few weeks. Meanwhile Mr Slovo is listening and taking stock – and setting out some of the tenets that will shape policy.

The housing backlog cannot be left to the market, argues the minister: "Private sector representatives are unanimous that the market requires the assistance and intervention, direct and indirect, of the state."

Deliberate neglect of black urban housing – apartheid's architects treated black South Africans as only temporary residents in white cities – created a backlog of between 1.5m and 2m homes. Even if government sought only to keep up with the annual demand caused by population growth, it would face a formidable task: about 240,000 new homes each year need to be built.

In the Pretoria-Witswatersrand-Vereeniging (PWV) province alone, 1m people need decent housing. Some 200,000 people have in recent years established squatter settlements, driven to the region in search of work or to escape from the drought of the early 1990s, and freed from apartheid laws restricting movement.

The migration to the cities looks set to rise. A recent study prepared by the Central Witswatersrand Metropolitan Chamber estimates that the population of the PWV will rise to 16m by 2010, an 80 per cent increase from the 1990 figure. A study by the country's National Housing Forum, a broad-based independent association of interest groups established in August 1991, doubted whether the construction industry can cope with the target. The number of registered building companies had dropped from 14,300 in 1988 to about 7,000 as a result of the recession. Skills are in short supply and plant and equipment is ageing, the study points out.

In an interview last month, Mr Slovo made clear that he was opposed to what are called "site and service" schemes, which allow people to build their own homes on plots provided with running water and water-borne sewerage.

Mr Slovo argues that government must provide a secure, weatherproof structure, otherwise such schemes soon become little better than the slums they are designed to replace.

Many housing experts disagree. Given the resources available, the size of the backlog, and the annual demand stemming from population growth, there is no alternative to serviced sites, they say.

Some of Mr Slovo's concerns are borne out by a 200-page report on the largest low-cost housing project in South Africa's history. Known as the Capital Subsidy Scheme (CSS), it was launched in March 1991 by the state-financed Independent Development Trust, established a year earlier to manage and disburse a R2,000m fund "to enhance the standard of living of disadvantaged communities". The R750m scheme offered 113,000 subsidies of R7,500 in 103 projects around South Africa.

Eligibility was limited to households earning less than R1,000 a month, and giving registered ownership of a serviced site. These would be provided with water and waterborne sanitation, access by graded road to each site, and paved bus routes. On completion, the project will have provided facilities for between 5 and 10 per cent of the low income population needing housing.

The assessment needs to be put in the context of the troubled times. Housing was in the political arena, with efforts to tackle the problem set back by political violence, rent boycotts and tensions created by the economic recession and rising unemployment.

Despite these difficulties, the evaluation describes the CSS as having been "largely successful". In the two years since its inception, some 300,000 people have been accommodated on 57,000 plots, at a cost of R440m of the allocated R775m.

But as the assessment goes into more detail, it becomes clear that for all its achievements, there are serious problems which current housing strategy has to take into account.

"There is a high risk of the subsidy being lost in the collapse of roads, toilet structures and pipes due to inadequate mechanisms being instituted for maintenance", it warns.

"The scenario could develop where there are taps but no water; blocked storm-water drains; impassable, eroded roads; toilets but no sewer systems; piles of refuse etc."

"This eventuality", the report continues, "is already raising its head in a number of projects. As the situation worsens, it will become increasingly difficult to resolve, with financially restrained local authorities unable to respond, and communities becoming more and more unwilling to pay for services that they only experience as non-functional".

The report also warns that "the level of expectation appears to have increased since the CSS started in 1991. The current expectation is that housing schemes for the poor need to make subsidy provision for a serviced site and a two-roomed house at least."

The government can go a long way towards meeting these expectations, says Mr Slovo, with a programme in which government subsidies will be accompanied by private sector participation. A forthcoming white paper will propose:

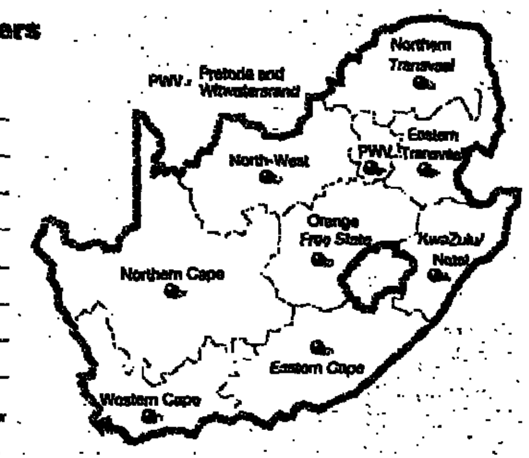
- Provision of a maximum grant of R12,500 for those earning less than R1,500 a month.
- Mortgage indemnity insurance scheme, with the capital provided by government and foreign aid, and the scheme maintained by users' premiums. Banks will be insured against non-payment of loans or if they are unable to repossess homes because of violence or political conditions.
- Consumer protection: measures to prevent speculation, and ensuring quality control.
- A national housing bank which will "cheapen housing capital by acting as a wholesale bank", says Mr Slovo.
- Provision of state-owned land for low-cost housing.

Given these schemes and the co-operation of the private sector, Mr Slovo believes that 50,000 houses can be erected this year, rising to 125,000 in 1995, 175,000 in the following year and 225,000 in 1997.

How close Mr Slovo's ministry comes to reaching these targets will be one of the yardsticks by which black South Africa will judge the ANC at the next election.

The provinces and the premiers

Western Cape	Hernus Kriel (NP)
Eastern Cape	Ray Mhlaba (ANC)
Northern Cape	Manne Dipico (ANC)
KwaZulu/Natal	Frank Mdlalose (IFP)
Orange Free State	Patrick Lekota (ANC)
North West	Popo Molefe (ANC)
Northern Transvaal	Ngoako Ramatlhodi (ANC)
Eastern Transvaal	Matthew Phosa (ANC)
PWV	Tokyo Sexwale (ANC)



The housing backlog is one of many issues facing Mr Slovo – and provincial premiers who are clamouring for power. There are turf battles over the RDP and a fight is looming over funding for the provinces: Reports, Page 7

Tony Hawkins assesses the Reconstruction and Development Programme

Calmer waters of national consensus

After starting out as a highly contentious political manifesto – the arena for angry ideological and economic debate during the election campaign – the ANC's Reconstruction and Development Programme (RDP) has sailed into the calmer waters of national consensus.

Ideology is much less of an issue, certainly insofar as social upliftment is concerned. Just about everyone – government ministries, parastatals, private enterprise, non-governmental organisations, and the donor community – is jostling to climb aboard the RDP bandwagon. Such broad-based enthusiasm for a programme which many decried only a few months ago, is itself a triumph for the new administration, but especially for the ANC.

Mr Jay Naidoo, the cabinet minister with overall responsibility for the RDP, says: "The remarkable thing about political transition is that we have a programme that united us, even before we started our first cabinet meeting."

This has meant that the focus of the debate has shifted from sterile argument over what it will cost – R39bn at the low end to R79bn at the top – to much more pragmatic issues such as priorities, linkages between the many different players who will be called to participate, sequencing and, above all, delivery systems, and how they should be funded.

The RDP has two broad thrusts – social upliftment and economic development. There are five key, inter-linked programmes: meeting basic needs; developing human resources; building the economy; democratising the state and society; and implementing the programme itself.

Meeting basic needs encompasses far-reaching land reform – an unreachable target of redistributing 30 per cent of agricultural land within five years; raising the number of houses constructed annually from 50,000 in 1992 to 300,000 by the end of the five-year programme in 1999; providing clean drinking water for the 12m people without access to it at present, and adequate sanitation for 21m people; supplying electricity to 19,000 black schools (86 per cent of the total) and some 4,000 clinics presently without electricity as well as two thirds of the country's homes; redressing the imbalance in access to telephone lines – one line for 100 black people compared with 60 lines for 100 whites; and social safety nets for the vulnerable.

According to the RDP, millions of blacks do not have access to such services. The RDP calls for the creation of a national health system focused on primary health care.

The plan includes phasing in a 10-year compulsory education system; limiting class sizes to no more than 40 by the end of the decade; the launch of adult education programme and the revamping of tertiary education. The underlying goals are widely accepted but this is not so for the third element of the programme – building the economy. Here the ANC's belief in interventionism comes through along with some unrealistic targets – for example, the creation of 300,000-500,000 non-farm jobs each year.

There is a pledge to "reverse privatisation programmes that are contrary to the public interest"; a promise to introduce "strict anti-trust legislation" while creating a more competitive business environment; and a commitment to "de-racialise business ownership". The section on industrial relations promises free collective bargaining, payment of a living wage and affirmative action.

As is invariably the case when a radical administration takes office, the more controversial elements of the programme have been de-emphasised and watered down. Indeed, this happened well before the elections, when some of the more ideological, interventionist elements relating to the mining and financial services sectors were amended in the face of sharp criticism from the private sector.

This process has continued as ministers new to government tackle a steep learning curve. For example, ministerial opposition to site-and-service housing schemes is ebbing away as the new incumbents face up to hard reality.

The new administration will soon have to start prioritising. One attempt to quantify the amounts needed to "remove social back-logs" within five years puts the extension of social services at the head of the list with 26 per cent of the total cost of R39bn, followed by education and training with 21.5 per cent and housing with 18 per cent.

In the new government's first budget, covering the nine months to March 1995, R2.5bn is earmarked for the RDP. This will be funded from savings from departmental votes – what Mr Jay Naidoo, the minister with overriding responsibility for the RDP, calls "turning the ship of state around to meet new priorities". He promises "a major kick-off of the programme" within the first 100 days – by mid-August.

The government is preparing a policy document to convert a political manifesto into a development plan. This will include a macroeconomic framework, or model, that ties the programme to anticipated future economic growth.

In the budget, Mr Derek Keys, finance minister, "pencilled in" total RDP spending of R37.5bn over five years, all of it to be financed from departmental savings. Assuming inflation of 9 per cent a year, this will mean that real recurrent government spending, excluding interest payments, will have to be cut by about 2 per cent a year. This looks to be unattainable, especially given the capital spending bias of the RDP, which in turn will create demands for higher departmental votes. Building more schools and hospitals implies more teachers, doctors and nurses.

Government spending on the RDP will be leveraged by aid inflows, by parastatal funding of electrification and telecommunications, by private sector financing of housing, by user-cost systems and by the sell-off of government assets such as the oil stockpile and forest land. On one calculation, R9bn could be raised from such asset sales. The Organisation for Economic Co-operation and Development believes South Africa could receive upwards of $1bn a year in aid flows, the greater portion of which would be for RDP-type programmes.

Co-ordination between central government, provincial administrations and parastatals, not to mention donors, is bound to be a problem – conceivably posing a greater challenge than financing. There is a number of well-run non-government organisations in South Africa with the infrastructure and capacity to deliver the goods at relatively low cost. What is in doubt is the willingness of some in government to make maximum use of such NGOs.

Senior officials also question the bureaucracy's capacity to spend efficiently the amounts likely to be available from 1995 onwards.

Patti Waldmeir reports on the struggle for power in South Africa's new provincial regions

Federalism arrives by the back door

South Africa's political landscape is shifting by the day, but nowhere is the movement more rapid than in the country's nine new provinces.

Provincial premiers are clamouring for power, and in some cases exercising powers to which they have no right under the constitution. Turf battles are under way to determine who controls the Reconstruction and Development Programme: the provinces or the centre. And the fight over funding the provinces has not even begun.

Despite the best efforts of African National Congress and National Party constitutional negotiators, it looks as though federalism has arrived in South Africa – albeit by the back door. And, ironically, it is not the "dissident" provinces of KwaZulu Natal and Western Cape – ruled respectively by the Inkatha Freedom Party and the National Party – but the provinces controlled by the majority party, the African National Congress, who are posing the greatest challenge to the centre.

"We knew the provinces were going to cause problems and the provinces that were going to cause the most problems were the ANC provinces," says Mr Zola Skweyiya, minister of the public service and administration and the man charged with devolving powers to the new provincial administrations under the 1993 constitution.

"The tension between the provinces and centre will cut across the political divide," says Mr Thozamile Botha, head of the Commission on Provincial Government, established to determine the extent of powers granted to provinces under the existing constitution, and under the new constitution due to be negotiated over the next two years in the newly elected constituent assembly.

"The main confrontation in the constituent assembly is not going to be between the ANC-NP-IFP but between the (ANC-led) national government and regional premiers of the ANC," says Mr Skweyiya.

The centrepiece of the battle will inevitably be the Reconstruction and Development Programme; ultimately, provincial governments will stand or fall according to how well they deliver on the RDP's promises.

But their power to do so is circumscribed: central government sets norms and standards for RDP programmes which could, in some cases, impede delivery at provincial level.

Provinces have only very limited powers to raise revenues of their own

For example, Mr Joe Slovo, national housing minister, has made clear that he opposes using RDP funds for so-called "site and service" schemes: programmes which provide basic services to squatter communities and allow them to construct their own shelter from whatever materials are available.

Housing experts agree that, however morally distasteful such schemes, they provide the only realistic solution to South Africa's massive housing backlog. Provinces which are forced to build formal housing with their RDP allocation from central government will end up satisfying only a fraction of their constituents – and this will have inevitable electoral consequences.

Tensions will inevitably arise over central government's constitutional right to impose uniform norms and standards throughout the country, and over the centre's right to allocate funding to provinces, on the basis of a formula yet to be agreed by a Financial and Fiscal Commission established under the constitution. Provinces have only very limited powers to raise revenues of their own.

"The key question is finance," says Mr Skweyiya. "What power do you really have if you have to account to central government for what you want to do and persuade them to finance it?"

The answer to that question is as yet far from clear: the political battle over the powers of provinces has only just begun. Their powers are outlined in the national constitution, subject to a vaguely worded over-ride clause which would allow central government to intervene in most areas if it wished. But before being allocated such powers, they must prove they are capable of exercising them.

"All these provinces are saying: 'We want all our powers now.' But the reality is that there is not an administration in all these provinces yet, there is just an elected government," says Mr Botha. In extreme cases such as the Northern Cape, a new province created at the elections, no administration yet exists.

Questions of long-term importance remain unresolved. Who will set the curriculum of provincial schools? Who will decide how teachers are paid? Who will set university entrance qualifications?

These are political, not constitutional questions although ultimately, if they cannot be resolved by political negotiation, the final arbiter will be the Constitutional Court. And the political battle between provinces and the centre has only just been joined.

Ironically, as ANC provincial leaders admit privately, they will be strengthened in their cause by the elements of federalism introduced into the constitution by their chief rival, the Inkatha Freedom Party – provisions which they fought bitterly at the time.

It truly is a new South Africa.

Profile: PWV province

Biggest splash so far

In the legislature of the PWV province – the industrial hub of South Africa, rather inelegantly named for its three main centres, Pretoria, the Witwatersrand and Vereeniging – the spirit of provincial unity is so strong that National Party members shout "*Amandla*", the black power salute, and the African National Congress shouts "*hoor, hoor*", the traditional Afrikaans interjection – just to show willing, writes Patti Waldmeir.

It is an impressive display, led by Mr Tokyo Sexwale, the premier – a man who proved his conciliatory credentials last year when he pleaded for racial tolerance in the aftermath of the assassination of Chris Hani, the ANC guerrilla leader killed by a right-wing white assassin.

True to form as South Africa's most powerful province, the PWV and its leaders have made the biggest splash so far on the provincial scene.

Hardly a day passes but Mr Sexwale, or Miss Jessie Duarte, his diminutive police minister, visit a black township to urge residents to co-operate with police, or drop in on a migrant workers' hostel to try to foster peace.

Mr Sexwale's performance as premier will be judged largely by how well he implements the reconstruction and development programme. And here, conflicts are already looming.

In his inaugural speech to the new legislature, Mr Sexwale promised to build 150,000 houses in the province over the next year – compared with only 30,000 homes built throughout South Africa last year.

PWV KEY FACTS

Area: 18,760 sq km
Population: 6.8m
Population growth: 1.3%
Literacy: 69%
Labour force employed: 54%
Contribution to national gross domestic product: 37%
Life expectancy: 66 years
Source: Development Bank of Southern Africa

He is understood to have plans for a grand R4bn house-building project involving massive private and public sector finance. The plan has already caused friction with Mr Joe Slovo, national housing minister, but Mr Slovo appears to have been powerless to prevent it.

Mr Sexwale's youthful and inexperienced cabinet – which includes a finance minister who is regional general secretary of the South African Communist party and other noted radicals – certainly does not lack energy.

Only time will tell whether it lacks the circumspection necessary to avoid grand and costly development failures.

Profile: KwaZulu Natal province

A delayed new start

It has become almost a cliche to refer to South Africa's remarkably peaceful transition to democracy as a "miracle", writes Patti Waldmeir. Such hyperbole may not be appropriate for most of what happened but it is difficult to find a less emotive term to describe events in the province of KwaZulu Natal.

"Amazingly, the population in Natal just forgot about tension and violence on all the days of the election," says Mr Jacob Zuma, African National Congress leader in the province. His party lost the election to the rival Inkatha Freedom Party – and conceded that loss despite widespread allegations of Inkatha electoral fraud. "The people gave leadership to the leaders on that day: they showed us how much they wanted peace."

Since that day, KwaZulu Natal's politicians have largely failed to respond to that demand. The provincial legislature has met only once, to swear in its members, and has been prevented from sitting since by a dispute over the choice of a provincial capital.

Bickering over the capital, and over the allocation of portfolios in the coalition "government of provincial unity" required by the constitution, has prevented the new government from tackling any of the daunting problems of a province with nearly a quarter of South Africa's population and some of its worst poverty.

While other provinces have forged ahead with plans for implementing the Reconstruction and Development Programme, KwaZulu Natal has projected an image of political conflict which jars with the overwhelming national emphasis on unity.

Dr Frank Mdladlose, the premier, is from Inkatha which has six of the 10 cabinet seats and 41 of 80 seats in the legislature. He angrily denies that his party is blocking progress. But Inkatha insiders say that Chief Mangosuthu Buthelezi, the party leader who is minister of home affairs in the national government, has forced Dr Mdladlose to take a rigid line on both capital and cabinet which has provoked conflict.

KWAZULU NATAL

Area: 91,481 sq km
Population: 8.5m
Population growth: 2.8%
Literacy: 65%
Labour force employed: 45%
Contribution to national gross domestic product: 14.7%
Life expectancy: 68 years
Source: Development Bank of Southern Africa

Slowly, though, things seem to be coming right. The cabinet recently agreed that the capital will be chosen by referendum, and that the cabinet will alternate between the old capital of Pietermaritzburg and the former capital of the KwaZulu homeland, Ulundi – an IFP stronghold – until its result is known.

"It's better to delay than to break down totally," says Mr Zuma, drawing a parallel with national negotiations which took four years to complete but appear likely to yield a durable peace. Natal did not enjoy this long period of consensus-building; its people fought each other until the very day of the elections. More than 10,000 people were killed in the province in political violence in the past decade.

"Everything must be given time. If you rush people, they take emotional decisions," he concludes. "We know their power; they know our power. We have to treat each other with respect.. In the end, we have a responsibility to govern Natal, not to fight about the province."

Profile: Western Cape province

National party redoubt

Cape Town, the European settlers' first landfall nearly 350 years ago, now finds itself the last redoubt of white political control following the victory of Mr F.W. de Klerk's National party in the Western Cape, the only one of South Africa's nine new regions which it secured in the April elections, writes Gordon Cramb.

Representatives of President Nelson Mandela's African National Congress dominate the national parliament, which sits in Cape Town. But when the regional cabinet meets at the other end of a leafy avenue, its four ANC members are outnumbered by the six from the white-run National party, which won the Western Cape because it convinced "coloured" (mixed-race) voters that it could better protect their interests.

The parties are linked at each level in a government of national unity. But many Capetonians fear that their city, 1,000 miles from the ANC's Johannesburg power-base, will become marginalised in the new South Africa – missing out on reconstruction spending and losing its key institutions.

There is pressure within the ANC for parliament to be relocated to a site near Johannesburg. Mr David Bridgman, director of Wesgro, an economic development organisation funded by the private sector and local municipalities, argues that this is not "the sort of signal to the local or international populace to be sending out" and says the R1.5bn estimated cost of the move would provide housing for a quarter of a million people.

Greater Cape Town has a population of some 3m, with hundreds each day arriving from rural areas to seek work.

WESTERN CAPE

Area: 129,386 sq km
Population: 3.6m
Population growth: 1.7%
Literacy: 71.9%
Labour force employed: 68%
Contribution to national gross domestic product: 13.2%
Life expectancy: 65 years
Source: Development Bank of Southern Africa

But the city and its surrounding region have few industries which can absorb unskilled labour. The Western Cape – bereft of metals and minerals – has as its main productive sectors agriculture (and the majority of South African wines), a textiles and garment industry, and tourism.

"For every 10 tourists you have a job," says Mr Kobus Meiring, the region's finance minister who was administrator of the old, larger Cape Province in the dying years of apartheid. He describes the ANC's reconstruction and development programme as "a summary of what I have been trying to do in the last five years" and he diverges in no respect from his ANC counterparts when he enumerates housing, employment and health as the biggest challenges.

Mr Meiring admits being worried about a possible northward drift of decision-making but argues that constitutional provisions, as well as the government of national unity operative at central and regional level, should protect the Western Cape from discrimination in allocating funds.

The region can trade not only on its breathtaking scenery but on an underemployed port and airport and a relatively well-educated workforce. Oil multinationals and insurance companies are among companies headquartered in Cape Town in spite of the distance of the city from refineries or stock exchange.

According to Mr Bridgman, potential foreign investors are exploring "one or two R1bn-plus projects". If the National Party-led administration differed to any extent from its ANC-headed equivalents elsewhere, it would "focus a little more on production as opposed to redistribution," he suggests, adding: "We need the other side, too."

Patti Waldmeir looks at land reform

Haunting test even for Solomon

Cyril Ramaphosa, secretary-general of the African National Congress, is probably not overstating the problem in this line from a recent speech on land reform: "Unless we settle the land question, we do not have a country. If we handle it badly, we tear South Africa to pieces. If we manage it well, we create the foundations of a truly united nation."

Deputy President F.W. de Klerk recently highlighted land reform as one of the issues which could destroy the government of national unity and anyone with even a passing acquaintance with the issue must recognise that resolving competing interests, meeting basic needs and defusing anger over land will require not only the wisdom of Solomon, but quite a lot of his wealth as well.

Apartheid's worst injustices were concentrated in this area. Since 1960, an estimated 3.5m people have been forcibly removed from their homes under various programmes designed to rid white South Africa of blacks. Some 1.2m black farmers have been left with only 17m hectares of often sub-standard land – 13 per cent of the country's total – while 55,000 whites, employing a further 1.1m blacks as labourers, farm 102m hectares.

Millions more are simply in need of land for settlement, whether urban or rural. In the former homelands, 83 per cent of black households are estimated to fall below the poverty line, largely the result of land shortage. It is a massive problem.

"If you don't have a land reform programme with some significant effect, it comes back repeatedly to haunt you. People's grievances don't just vanish," says Mr Derek Hanekom, the newly-appointed minister of land affairs, from the African National Congress. He points out that land reform is central to the Reconstruction and Development Programme which calls for 30 per cent of South Africa's land to be redistributed over five years beginning next year. Mr Hanekom estimates the cost at R2bn a year – although only R92m is allocated for land reform in the present year's budget, which provides only a total of R2.5bn for all the RDP programmes. He outlines the government's goals as:

● Restitution: a Commission on Restitution of Land Rights and a Land Claims Court will be set up to deal with the claims of forced removals victims. Under the new constitution, people dispossessed of land after 1913 – the year when systematic racial dispossession began in earnest – can claim restitution from the state.

Original land may be returned to them or, where this is not feasible, alternative state-owned land or other compensation

ANC secretary-general Cyril Ramaphosa: 'the foundations of a truly united nation'

Minister of land affairs Derek Hanekom: 'People's grievances don't just vanish'

will be provided. But under the bill of rights, the interests of existing as well as original landowners must be respected. The constitution bars expropriation except for "public purposes", and requires that "just and equitable" compensation be paid, taking into account factors such as market value, use of the property and value of investments in it. Mr Hanekom says that only state-owned land and land acquired through the market will be used for this purpose, or for:

● Redistribution: millions of black South Africans – not just those with historical grievances – lack adequate land for settlement. Their plight has been highlighted by cases of squatters invading privately-owned land near Johannesburg, an invasion which the government condemned.

But, as the World Bank points out in a recent policy document on land reform: "It is essential that an expeditious, transparent and thorough land restoration and redistribution process be implemented as a means of discouraging the landless from resorting to land invasions."

As Mr Geoff Budlender, a land lawyer, puts it: "*Land occupation is the only functioning land claims process* in South Africa today." Until land reform begins in earnest, the threat of invasion will grow.

● Rural restructuring: "Restitution entails more than just the acquisition of lost land," says Mr Hanekom. "Good planning, the resettlement of people, the provision of infrastructure and services, economic support programmes, sustainable development and, very importantly, community institution building are essential elements of the programme."

● Legal and market reforms: tenure rights will be strengthened, and state financial institutions restructured to improve poor people's access to finance. "We want to remove the impediments, and ensure that those people who are in a position to take advantage of market opportunities are encouraged as much as possible," Mr Hanekom told the Johannesburg newspaper Business Day recently.

● Mr Hanekom does not mention reform of agricultural markets – the ministry of agriculture is the responsibility of the opposition National Party – but the government's programme includes measures to stimulate competition in agricultural markets and reduce barriers to entry, as an essential adjunct to land reform.

Many questions remain unanswered. How will the beneficiaries be chosen: according to need, or the ability to farm land productively? How will nepotism and corruption be avoided? Where will the money come from? Can the state move quickly enough to stave off the threat of invasion? One fact is clear, however: the present highly unequal pattern of land ownership cannot continue. Other countries with a similar pattern have seen neglect lead to civil disorder and violence. South Africa cannot afford to do the same.

Michael Holman on the defence forces integration

Critical stage completed

In its own way, the announcement at the end of last month was almost as momentous as the installation of President Nelson Mandela.

Mr Siphiwe Nyanda, former chief of staff of Umkhonto we Sizwe (MK), the African National Congress's guerrilla army, was appointed Acting Chief of Staff of the South African National Defence Force (SANDF).

Mr Nyanda, 44, was one of nine MK officers given senior positions in the integrated SANDF in a statement issued by Mr Joe Modise – himself a former MK commander and now minister of defence.

Confirmed in their positions were the present chiefs of the army, air force and navy: Lt Gen J H Pretorious, Lt Gen J Kriel, and Vice-Admiral R C Simpson. In a restrained comment that must have concealed many emotions, Gen

The South African armed forces were not defeated and their MK adversaries never managed to launch an effective guerrilla war

Georg Meiring, commander of the SANDF, declared himself "quite happy".

The announcement marked the end of a critical stage of one of the most remarkable revolutions of the twentieth century.

The South African armed forces were not defeated and their MK adversaries never managed to launch an effective guerrilla war. But the soldiers of both sides had to find an accommodation that would underpin the civilian leaders' political settlement.

The essentials of the accommodation provide for the SANDF to swell to about 120,000 over the next year, allowing for the entry of MK cadres, soldiers of former homeland armies, and a much smaller number of guerrillas from the Azanian People's Liberation Army, military wing of the Pan Africanist Congress.

Over the next three years this force will continue a process of "restructuring and integration", during which it will be trimmed back to the pre-integration strength of the armed forces – about 91,000.

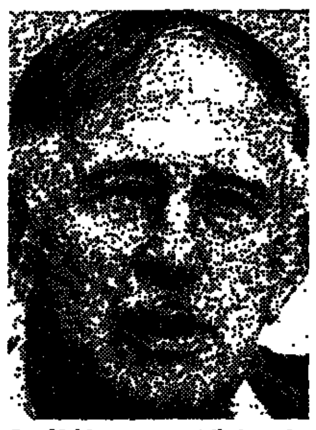
These bare facts do not do justice to the complex behind-the-scenes negotiations that have run parallel to the public political bargaining. But in a chapter from a book to be published later this year by Johannesburg's Centre for Policy Studies, Mr Mark Shaw, a researcher at the centre, provides a detailed account.*

The essence of Mr Shaw's thesis is that the former South African Defence Force (SADF) made their own assessment of the political and military options open to them, and "chose... not to prevent change."

"Contrary to expectations of many observers, the SADF did not seek to derail or prevent the transition; rather it sought to secure its place within it", writes Mr Shaw.

"This willingness to live with majority government and military integration was made far easier by the knowledge that its power, and the technical competence of its senior officers, ensured that it would remain a force which the new civilian authorities would have to respect, whatever formal arrangements were signed", he continues.

Equally illuminating comments are made about MK, whose operational strength



Gen Meiring: comment that must have concealed many emotions

numbered about 10,000 in the mid-1980s. It never had an overt political agenda of its own, aside from the basic objective of ending white rule, says Mr Shaw. This made it easier for it to revise its strategy after Nelson Mandela's release in 1990, he writes. From 1991 onwards, its training changed from guerrilla skills to conventional military skills, "designed specifically to prepare individuals for incorporation into a new national defence force".

Some 8,000-10,000 MK soldiers are believed to have been trained for this purpose, bringing the estimated number of troops available for integration to about 14,000-16,000.

"If estimates of MK guerrilla strength are accurate, it trained more people for the national army than for its guerrilla war. While this still left it vastly outnumbered by the SADF, it made it less likely that military 'integration' would amount to the MK being absorbed by the SADF", Mr Shaw writes.

According to Mr Shaw, the South African cabinet decided in 1990 to try and leave the SADF untouched: "It alone would control the military until it was reasonably certain of the outcome of the transition," and ANC efforts to the contrary were "stonewalled" until early 1993.

The compromise reached on the thorny issue of control was the agreement to form a National Peace Keeping Force (NPKF).

Although it was to prove a failure, the exercise nevertheless served a valuable purpose.

Originally intended as force of 10,000 men, it initially comprised some 4,500 drawn from the SADF, the police force, MK and homelands forces from Transkei, Ciskei and Venda.

Poorly trained and badly led, it was discredited on its first operational deployment in the East Rand, where violence actually increased after the force was deployed. Two days later it was withdrawn and later it was disbanded.

The experience increased the legitimacy of the SADF, welcomed back enthusiastically to the East Rand. But, says Mr Shaw, the NKPF prevented a negotiation deadlock on joint control of the armed forces and showed that more time was needed for integration, while the legitimacy it afforded the SADF was to be transferred to the new SANDF.

The months and years ahead, warns Mr Shaw, will be marked by internal battles over senior appointments and affirmative action. The call by the former SADF for "a technologically advanced military force" will also be a sensitive issue, for it has political implications.

A high technical capacity, Mr Shaw suggests, could help extend white officers' hold on military power.

He also warns that "tensions will inevitably develop between the old military leaders and the new political ones, with the ex-homeland officers split between them."

But the analysis ends on a cautiously optimistic note: "Restraint and political skill on both sides could however yet ensure a united military, constrained by civil authority, in a society in which this once hardly seemed likely".

* *The Small Miracle*, Ravan Press, c/o Centre for Policy Studies, PO Box 16488, Doornfontein 2028. Tel: (2) 11-4024308, Fax 4027755.

Soldiers of both sides had to find an accommodation Picture: Reuter

Troops of the 5th Mechanised Battalion were deployed to KwaZulu in April to combat violence Picture: AP

Patti Waldmeir reviews developments in the police

From force to service

Mr Sydney Mufamadi, minister of safety and security, wears a plastic watch with the hammer and sickle of the Italian Communist party, accepts his tea from an obsequious white Afrikaans civil servant and defends "his" policemen – and women – against the charge that they are all apartheid's criminals.

Such incongruities have become the normal stuff of life in the new South Africa. White civil servants have new black bosses whom *they* treat with the same studied servility as their Afrikaans predecessors. White police generals, who defended the apartheid state with such vigour, are rushing to ingratiate themselves with new political masters. And Sydney Mufamadi, 35, finds himself in the uncomfortable position of having to find nice things to say about the most *hated institution* in South African society: the *South African* police.

It is a tribute to the extraordinary qualities of the soft-spoken and articulate Mr Mufamadi that he does not seem to find this difficult. He is one of South Africa's most adroit conciliators, a true peacemaker in the mould of his mentor, Nelson Mandela. And best of all, he is a pragmatist who knows that violence can never end so long as police are seen as most of the problem, and not part of the solution.

"My police men and women" – Mr Mufamadi never omits this awkward but politically correct reference to gender – "in the past they were expected to enforce laws which were not based on human rights. Perhaps the fact that they were vicious can mean that they were potentially good policemen and women."

In other words, their job was repression and they were good at it. "Now we need to ensure that they enforce humane laws" – and hope that they are equally good at fulfilling that task.

Ironically, Mr Mufamadi believes that a "truth commission", aimed at revealing apartheid abuses, could actually enhance the legitimacy of the police by proving that "99 per cent of these people are not that bad."

"*Precisely because it is generally understood that the* police are up to something sinister, whether or not it can be proved, the truth commission" – which South Africa's former rulers fear could turn into a witch hunt – "can address this problem by promoting the legitimacy and integrity of the police. Those involved in unlawful activities cannot be more *than 2 per cent of the entire force.*"

But if Mr Mufamadi, and provincial police ministers such as Ms Jessie Duarte in the Johannesburg region, are trying hard to re-establish trust in the police, they are simultaneously trying to change the force from within.

"You have a police *force*, not a police *service*. It's run on *completely militaristic lines*. You don't have people saying 'Our job is to protect human life; to protect people and communities.' They see their role as protecting privilege. But it's not enough to protect [the man] who has nine cars and not protect the poor," says Mr Mufamadi.

"There is a particular culture of policing and that is the culture you want to change," he concludes, adding with a note close to despair: "But how do you inculcate in the whole South African society a human rights culture?"

Changing the command structure of the new South African Police Service (SAPS) will be crucial. "The Pretoria officer corps must reflect the fact that there are not just white male Afrikaans speakers in the police," he says. "The police leadership must be restructured to reflect South African reality."

But, as one of Mr Mufamadi's *officials says, taking on the police is a mammoth task.* "It's a state within a state – they even have their own holiday resorts!"

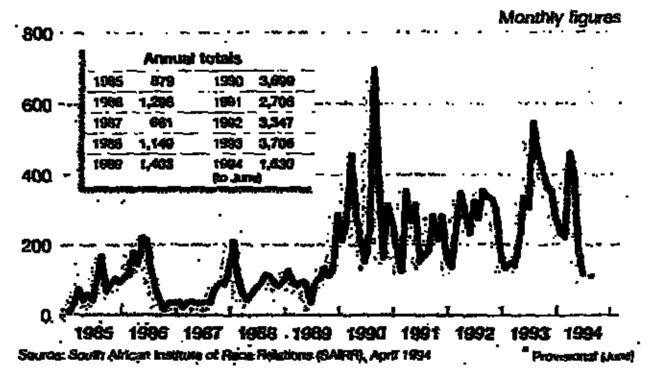
And it is not clear that South Africa's former rulers are willing to come completely clean on the subject of the security services. "Officially there is just a police force – but then you discover there is even officially a force engaged in gun running! It's like an onion; we're getting one peel after another. We may never get the *whole thing," says the official.*

In the meantime, police forces in the 10 former homelands are in chaos, making illegal promotions and looting government property. "Policing in some of these areas has virtually collapsed," says a senior police official.

So if violence has abated, the credit goes primarily to the people, not to the police. Mr Jacob Zuma, African National Congress leader in KwaZulu Natal, reflects on the drop in violence in the province: "Amazingly, the population of Natal just forgot about tension and violence on all the days of the election. The people gave leadership to the leaders on that day: they showed us how much they wanted peace."

Sydney Mufamadi was listening to their message; his job now is to deliver.

Political violence: fatalities



Source: South African Institute of Race Relations (SAIRR), April 1994 * Provisional (June)

Trade unions are changing, writes Patti Waldmeir

Price of success

Today's South Africa is a country of many parallel revolutions: virtually every institution of state or society is undergoing dramatic change, not least the trade union movement.

The union movement, itself an important catalyst of political change during the bad times of apartheid, is today paying the price for its success. The African National Congress, which arguably could not have achieved power without union help, has poached the best and brightest unionists for the government of national unity.

Mr Jay Naidoo, formerly general secretary of the most powerful union federation, the Congress of South African Trade Unions (Cosatu), has one of the most important jobs in the new government: he is minister without portfolio in the President's office, charged with overseeing the Reconstruction and Development Programme. Fellow unionist Mr Alec Erwin is deputy minister of finance, Mr Sydney Mufamadi, a former Cosatu official, has the powerful post of minister of safety and security (police), and other unionists serve as influential advisers to ministers or MPs.

Overall, Cosatu has lost some 100 of its leaders in recent months, not only to high offices of state, but to the private sector and academia. The result is a crisis of leadership, which could have important implications for labour relations and economic development in the months and years to come.

With 3.5m members, the unions are a leading force in society

Strong leaders will be required to ensure that South Africa's powerful unions contribute to the process of making the public and private sectors more competitive and productive, rather than fighting change.

With 3.5m members, or 26 per cent of the economically active population, the unions are a leading force in society. Cosatu has 1.3m members.

Cosatu's outgoing leaders laid a firm basis for co-operative change before leaving the movement, through their participation in various tripartite negotiating forums bringing together business, unions and government for the first time.

They brought imagination, pragmatism and clear strategic thinking to bear on the problems of industrial restructuring and socio-economic development, and key thinkers such as Mr Ebrahim Patel of the South African Clothing and Textile Workers Union will continue to do so.

But the unions' clout within such corporatist structures will inevitably diminish – at least until a new crop of articulate and forceful unionists can emerge to take the place of those lost. And perhaps more importantly, the leaders' ability to deliver the co-operation of the union rank and file may also be jeopardised; already mine employers report discipline problems at the mines, the direct result of union loss of authority.

Government officials believe strong union leadership is essential to South Africa's economic recovery. Tariff reform, prompted by the General Agreement on Tariffs and Trade, will cause upheaval in sectors such as textiles, the motor industry and electronics. Across-the-board wage restraint is viewed as necessary for the success of the Reconstruction and Development Programme, and to rebuild confidence in the economy before measures such as removing exchange controls can be taken. Weak leaders cannot hope to deliver union acceptance of these and other unpopular measures.

Mr Derek Keys, finance minister, says the question of wage restraint has not yet been "battened down."

"I think a compact as such is not on the cards, but I think a tacit, never-expressed understanding is possible," he said. His successor, Mr Chris Liebenberg, will be equally keen to secure such an understanding. Government seems to be proposing that Cosatu temper wage demands in exchange for large private-sector programmes to train and upgrade workers and government action to improve what unionists call the "social wage" – improved social services which reduce the cost pressure of education, health care and transport on workers' pay.

Mr Sam Shilowa, Cosatu's new general secretary, seems tacitly to accept this arrangement, although he rules out any unilateral union offer of wage moderation. "You don't call for wage restraint in a situation where there is no social programme to take the strain off people's salaries. Anyone speaking about wage restraint would first have to tell us what has changed in terms of the distances that have to be travelled from Soweto to Johannesburg, and in terms of the living standards of our people."

But even if Cosatu leaders accept such a "never-expressed understanding", will their members agree? In many sectors, real wages have fallen over the past four years of recession, and with the economy recovering and Cosatu's political allies in power for the first time, the trend may be towards greater union militancy, rather than moderation.

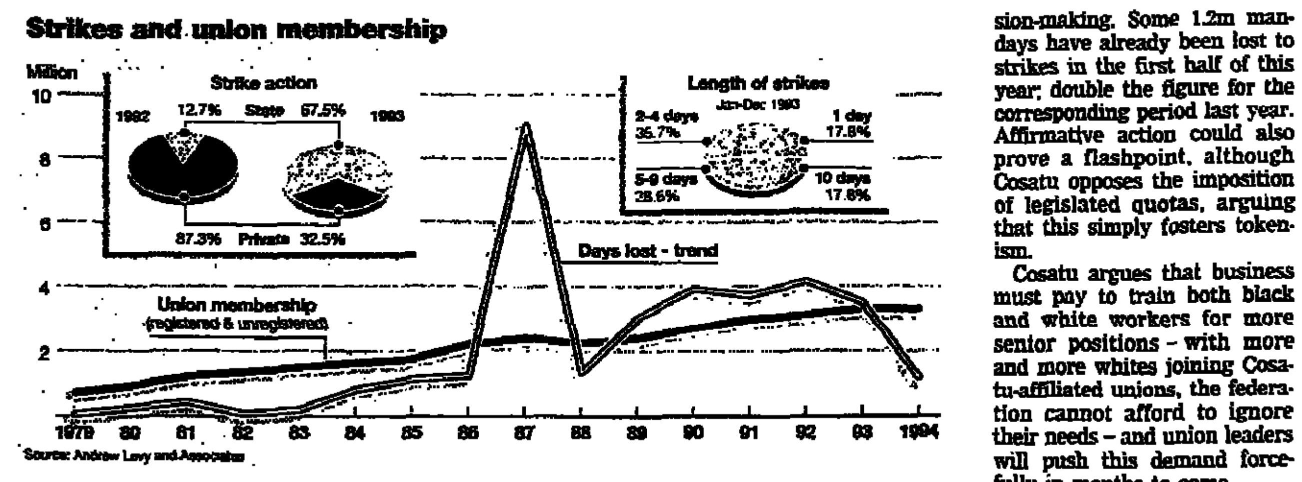
Cosatu officials predict a fairly turbulent year, not necessarily over wages, but issues such as racism in the workplace and greater involvement of workers in corporate decision-making. Some 1.2m man-days have already been lost to strikes in the first half of this year; double the figure for the corresponding period last year. Affirmative action could also prove a flashpoint, although Cosatu opposes the imposition of legislated quotas, arguing that this simply fosters tokenism.

Cosatu argues that business must pay to train both black and white workers for more senior positions – with more and more whites joining Cosatu-affiliated unions, the federation cannot afford to ignore their needs – and union leaders will push this demand forcefully in months to come.

In the longer term, says Mr Ebrahim Patel, writing in a recent issue of the Johannesburg Weekly Mail newspaper: "Unions will tend to reflect the impatience of the community and the urgency of *social* transformation."

That, in the end, will be what government fears most: a union movement which mobilises popular frustration over the necessarily slow implementation of the Reconstruction and Development Programme. Labour relations will never be the same again.

Strikes and union membership



Source: Andrew Levy and Associates

Patti Waldmeir on plans to promote blacks through affirmative action

Voluntary steps preferred

The African National Congress has set out to transform South Africa: nothing less will do. Changing the racial composition of management, the professions, the universities – all the institutions of power – will be central to that transformation.

South Africans no longer debate the moral arguments in favour of affirmative action – or the utilitarian arguments against it. They treat it as inevitable. Apartheid prevented the entry of blacks to the managerial and entrepreneurial classes; now this must be reversed, lest apartheid's legacy destroy the spirit of racial goodwill which was such a welcome byproduct of April's elections.

The scale of the task is enormous: within the civil service, most power lies in white male Afrikaner hands. Although many ministers are now black, most senior civil servants remain white. Before the elections, fewer than 1 per cent of top positions were held by black Africans, and only a handful of senior black appointments have been made since then.

Blacks still have only a token presence on the boards of leading quoted companies, and top management is mostly white. Although a recent survey showed that the number of senior black managers had doubled in the past two years, the figure had risen from 1.9 per cent to only 3.9 per cent.

Changing the balance radically will be difficult because apartheid has deprived Africans of the education and experience they need to cope at senior levels. Few blacks are qualified to run government departments or big corporations. The large pool of bureaucrats from black homelands provides few technically competent individuals – and far too many who rely on nepotism and corruption to survive.

Public corporations such as South African Airways and the electricity utility, Eskom, have made big strides toward righting the racial balance. But the civil service has lagged behind.

Mr Zola Skweyiya, public service minister, pledges a vigorous affirmative action policy. He points out that although white civil servants had their jobs guaranteed under the constitution – none can be sacked except with full pensions – they can be moved from their current posts to make way for black candidates.

Private sector business, too, has judged it better to take pre-emptive action now

No one will lose but the taxpayer. For the only conceivable way in which whites can be retained and blacks advanced at the same time will be by adding to the already bloated civil service payroll.

Private sector business, too, has read the writing on the wall, judging it better to take pre-emptive action now rather than risk legislation in future. A recent survey conducted by the Johannesburg company FSA-Contact showed that three quarters of companies had affirmative action programmes in place, up from just over half last year.

The ANC has said it prefers voluntary affirmative action to legislated change, but has made clear that legislation will be used if companies prove recalcitrant. Some ANC officials have suggested tax incentives to companies who train workers to further affirmative action. Others focus on punitive levies to penalise those slow to change.

But both the ANC and its allies in the trade unions agree that racial quotas, legislated or voluntary, are unwise. Mr Ebrahim Patel, economist for the South African Clothing and Textile Workers Union (Sactwu), says that "workplace democratisation" – bringing workers into decision-making structures – is one way of getting around the shortage problem while still empowering blacks in the workplace.

Mr Sam Shilowa, general secretary of Cosatu, the largest union federation, is keen to insist that affirmative action is not intended to penalise whites.

"If affirmative action is seen as taking white jobs it can be detrimental, it can cause strikes," says Mr Nelson Ndlsa, president of the South African Railways and Harbours Workers Union (SARHWU), the SAA union. Mr Ewan Abrahamse, a union official, says: "In the end, we'll bear the brunt of the racial tension in the workplace. If we cannot have a better understanding between whites and blacks, the country will be ruined."

He might have been quoting from a recent African National Congress policy paper: "If well handled, affirmative action will help bind the nation together and produce benefits for everyone. If badly managed, it will simply re-distribute resentment, damage the economy and destroy social peace."

THE BUSINESS MOOD

Bubbling with enthusiasm

The recent announcement that Mr Derek Keys, finance minister, intends to resign in October has put a bit of a dent in the unadulterated optimism that most businessmen had been professing after April's elections, writes Mark Suzman. But there is still an overwhelming sense of relief within the South African private sector that the transition proved so successful.

More important, there is a widespread conviction that, given the new political dispensation, South African business may be in a position to revisit the glory days of the 1960s.

"It really is a miracle," says Mr Richard Laubscher, chief executive of banking group Nedcor. "There's no other word to describe it." Indeed, the South African corporate sector has been positively bubbling over with enthusiasm since the success of elections, and the South African Chamber of Business confidence index has been rising steadily month by month.

This is not to say that traditionally hard-nosed businessmen are overlooking the big problems they continue to confront – including overpriced labour, outdated machinery and a severe shortage of skills – but there is an overwhelming sense of relief that the difficulties now being faced are of a conventional economic nature and not those of sanctions, disinvestment and the threat of civil war.

"We've been through the business equivalent of the ten biblical plagues," observes Mr Meyer Kahn, chairman of South African Breweries, one of the country's largest industrial corporations, "These problems are paradise compared to what we've been through."

As a result, it is hard work finding someone willing to point to any downsides to business life in the new South Africa. Part of this is just reaction to the dismal economic and political climate of the past decade.

"If you'd told me ten years ago we were expecting 2.5 to 3 per cent growth I would have been depressed. Now I'm ecstatic," admits one executive. Similarly, while the recent budget's projected deficit of 6.4 per cent and its mild investment incentives would have drawn jeers amid the prosperity of the 1960s and 1970s, today it is applauded as a blueprint for growth.

But while the economic numbers may turn up some negatives, there are also some fairly hefty positives. The economy has returned to growth after a four-year recession; exports are at record highs; and inflation is at a 21-year low. In addition, retailers report rising sales and, most importantly, fixed investment is rising after years of decline.

Add to this the return – in small numbers – of many leading multinationals which departed during the apartheid years and, more importantly, the opening of markets from Africa to the Middle East to eastern Europe, that were out of bounds for decades, and the resultant feeling is that the only way from here is up.

No doubt tensions will surface. There are also worries that Mr Christo Liebenberg, the new finance minister, will prove less capable of standing up to demands for fresh government spending than his capable predecessor.

But despite all this, the underlying fact is that confidence is at its highest level in years. And while it would take a miracle for South Africa to transform itself into what one businessman wistfully describes as "an African lion that can take on the Asian tigers," miracles are something the country can claim to have some experience with.

In the new South Africa, manufacturing industry must fulfil two taxing conditions. Growth must be both export-led and labour-intensive. Marrying these two goals is not going to be easy.

South Africa is not a low-cost country – more a high-wage, low productivity one – and its competitive advantage stems primarily from the combination of a rich resource base and highly capital-intensive, value-adding activities.

The numbers tell their own story; in 1990, base metals, chemicals and metal products accounted for 58 per cent of manufactured exports, while almost three quarters were classified as "resource-based".

In part, as trade theory predicts, this reflects South Africa's resource endowment, but two policy elements – forward cover for exports and tax incentives for "beneficiation" industries, adding value to minerals, also contributed. Since the 1920s, industrial growth has been driven by import substitution behind high tariff and protective walls. In the past decade, however, the emphasis has changed as domestic recession pushed more and more companies into the export market.

Despite sanctions, exports of manufactures grew 10 per cent a year between 1984 and 1990 – nearly three times faster than in the 1970s. Indeed, since 1972, exports have grown twice as fast as production – 6 per cent as against 2.6 per cent for output.

Five industrial sectors – foods, industrial chemicals, steel, non-ferrous metals and metal products – make up almost two thirds of total manufactured exports but in recent years non-traditional exports – furniture, jewellery, rubber and plastics, and cars – have expanded strongly as business was forced to seek market opportunities abroad. On the face of it, this ought to make cheerful reading for Pretoria's policymakers. Industrial exports that performed so impressively under sanctions should surely do far better now, not just because sanctions have gone, but also because supplyside reforms to enhance productivity and competitiveness are in train.

These reforms take two main forms. First, political transition and the thrust of the RDP which, between them, should both improve substantially the industrial relations environment, while boosting productivity, on the strength of increased spending on education and training.

The second is the pronounced and continuing shift in trade policy, underlined by tariff reform and the commitment to more export-friendly strategies.

South Africa's extremely complex and skewed tariff system is being reformed as part of the country's General Agreement on Tariffs and Trade submission under the Uruguay round. From next January, tariffs will be lowered and rationalised over a five-year period, with longer phase-in periods and higher protection for "sensitive" industries, most notably clothing and textiles and vehicle assembly.

Although South African manufacturing has not been over-protected – according to the World Bank the average tariff is about average for a developing country, although very high by first world standards – the dispersion, complexity and instability of the system have undermined economic efficiency.

The net effect has been a heavy bias against exports, two- thirds of which stems from the higher input prices that industry must pay for manufactured inputs. The South African Chamber of Business (Sacob) estimates that manufacturing costs are 15 per cent above the Organisation for Economic Co-operation and Development average, mainly because South African companies pay a quarter more for their inputs than their first-world competitors, but also because both the cost of capital and labour costs, adjusted for productivity, are higher.

Highveld Steel plant east of Johannesburg. Crucial to the export drive will be a new system of incentives

Tony Hawkins reports on manufacturing industry

Two taxing conditions

From next January, this will start to change. The number of tariff rates will be reduced from more than 100 to just six, ranging from 0 per cent to 30 per cent, lowering the average tariff to 15per cent. The frequent discretionary changes in the system that have been the norm, will no longer be possible.

The World Bank says that the General Export Incentive Scheme which, until the 1994 budget, provided tax-free financial subsidies to exporters, provided a subsidy of nearly 17 per cent of the value of export.

The subsidy, costing some R2bn annually, applies to most exports, increasing with the degree of value added. The Bank warns that manufacturing industry's recent impressive export growth is unlikely to be maintained, when it is phased out, probably by the end of 1997.

Crucial to the export drive will be a new system of incentives – by way of exemptions and duty-drawbacks – improved mechanisms for providing pre- and post-shipment export finance, and linking training and research and development assistance to export-oriented companies. The underlying strategy is a reversal of past performance, shifting from a situation in which export sales are a residual after satisfying the home market, to one in which domestic market sales play second fiddle to exports. How tariff reform and export incentives will play out in terms of their impact on manufacturing will only become clear towards the end of the decade. The Industrial Development Corporation, using a macroeconomic model borrowed from the Australians, has calculated that Gatt submission will have a positive impact, albeit only a minor one. Its model, criticised on technical grounds by some private sector economists, estimates that tariff reform will increase gross domestic product by only 0.7 per cent – a one-off impact – while lowering inflation 1 per cent, raising employment 1 per cent, exports 1.2 per cent, and imports 2.5 per cent.

The magnitude of these calculations suggests that the impact of Gatt on the South African economy is being oversold. This, however, ignores the qualitative implications in terms of transforming an inward-looking into an outward-oriented manufacturing sector, with significant gains in terms of technology, skills and productivity.

Nor do such macro calculations capture the impact of restructuring. Two sensitive industries – cars and clothing and textiles – face a potentially traumatic transitional phase during which some companies will have to close, jobs will be lost and significant government financial support will be needed, for retraining and possibly for redundancy benefits.

The motor industry, with seven assemblers, faces far-reaching structural change. The number of models produced will shrink, exports will loom larger as protection phases down over the next seven or eight years to 45 per cent from 110 per cent at present, and – in all probability – two or even three of the existing manufacturers will close or merge with a local competitor.

Just what this will mean for employment is unclear at this stage, but there is an influential lobby in business, with some support from the World Bank, for further exchange rate depreciation. This would make exporting more profitable, generating investment and jobs, while giving import substitution industries at least a temporary respite in coming to terms with enhanced competition from abroad.

Greater outward orientation of the economy from 1995 might be an engine of growth, according to the World Bank, though not, it warns of (direct) employment generation. A Bank research paper comes down in favour of a three-pronged approach – fostering growth in a small number of selected subsectors, which sounds suspiciously like picking winners, usually frowned upon in Bank orthodoxy; linking support to export performance; and supporting employment generation. Crucial to employment growth is a shift away from the capital-intensive self-sufficiency, counter-sanctions, investments of the 1970s and 1980s, to smaller-scale, export-oriented, job-intensive investment. A potential snag is the ANC's opposition to Asian-style low-wage, sweat-shop industrialisation. The new government is looking for the best of both worlds – labour-intensity but at wage levels above those found in competitive economies.

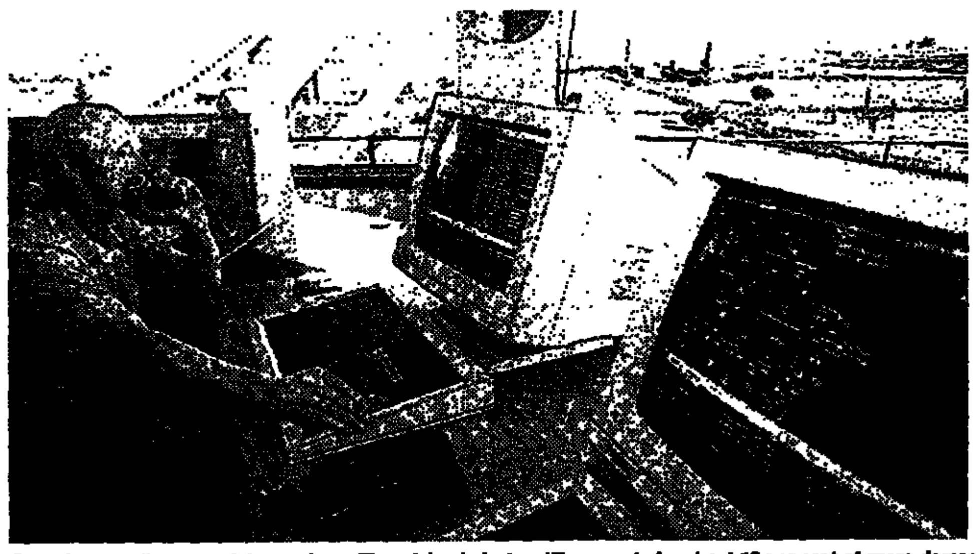
Naively, in a world in which employment growth has been decoupled from output expansion, the World Bank's best scenario for South Africa assumes a return to capital-labour relationships that existed 25 years ago. Only the optimists believe that this will happen. A more likely outcome is greater job creation in manufacturing, especially the small scale sector, though at nothing like the rate necessary to defuse the unemployment crisis.

One market analyst muses: "Like it or not, mining is still the steam engine of the South African economy." Such a view is amply borne out by statistics: although the industry's contribution to overall output has been declining over the past decade, mining still accounts for about 10 per cent of gross domestic product, and is responsible for more than 60 per cent of South Africa's export earnings.

The past 12 months has seemed to signal an upturn in the industry after several years in the doldrums. The commodity cycle is improving steadily and the continued depreciation of the rand has helped boost revenues even further. Gold is recovering from the disaster years of the late 80s and early 90s, coal and diamonds have both picked up from the bottom of their price cycles and the same is true for a wide range of other minerals.

But while the commercial position may be looking brighter, there are renewed problems for the industry on the political front. Although the battle over nationalisation appears to have been won by the mining houses, there has been considerable debate in African National Congress quarters over the possibility of the state taking control of the country's mineral rights, which in South Africa, unlike many other countries, are privately owned.

The idea, aggressively promoted by Mr Paul Jourdan, an



Goedehoop colliery near Johannesburg. The mining industry still accounts for about 10 per cent of gross domestic product and is responsible for more than 60 per cent of South Africa's export earnings

The past 12 months has seemed to signal an upturn in the mining industry, writes **Mark Suzman**

Economy's steam engine trundles on

ANC adviser on mining, is premised on the argument that such a move would allow the government to raise new revenue from increased taxes, leases and royalties, while freeing up new deposits for exploitation by small, black-run mining operations. In addition, by allowing the possible entry of foreign mining companies that have long sought a foothold in the South African market, Mr Jourdan argues, the plan should promote competition and efficiency as well.

But as Mr Julian Ogilvie Thompson, chairman of the country's largest mining conglomerate, Anglo-American, points out, in South Africa any moves made in this direction would "not be from a standing start." Local companies have already spent a great deal of time and money investigating the viability of mineral deposits. To arbitrarily alter the system, he argues, would be expensive, unfair and unproductive. So far, despite its pre-election rhetoric, the new government has not taken any action, and the appointment of Mr Pik Botha, former foreign minister, as minister of mineral and energy affairs has helped reassure mining houses that little of substance is likely to change.

But the debate is the subject of continued discussions between ANC advisers, the government and the mines. One senior mining executive notes: "Our talks have had a tone of constructive collaboration, and we are continuing the dialogue." He predicts that the outcome will probably be a compromise, with mines selling or leasing some of their less valuable claims to new users.

Another potential danger area is on the labour front. The industry's recovery is still very fragile and predicated on continued cost containment. But after years of accepting below-inflation wage increases, mineworkers are becoming increasingly restive. Hoping for support from a sympathetic government and demanding a share of the benefits accruing from higher mineral prices, the current round of wage negotiations, due to be completed this month, is going far less smoothly than in previous years.

Many leading companies are pushing for productivity bonuses or profit-share schemes that will allow them to embark on much-delayed capital expenditure, but workers are insisting on increased base pay and wild-cat strikes and go-slows have already depressed output for the year. Lingering apartheid legacies, such as the continued lack of proper housing for black mineworkers, are also causing tension.

"Its going to be much tougher this time round," notes one official involved in the pay talks. "The unions are being less accommodating than during the recession."

In the longer term, too, other problems are looming. While South Africa still has vast mineral deposits, it is a very mature mining environment and new capital investment has slowed dramatically over the past 10 years. Of the developments which have gone ahead, while the R1.7bn Moab extension to Anglo's Vaal Reefs is on track, Gengold's Oryx development and JCI's Joel expansion have both underperformed, as has the struggling Northam Platinum mine, all of which serves as a discouragement for further new initiatives.

As a result, freed from the restrictions of the apartheid years, companies are increasingly focusing their attention on more attractive prospects abroad, particularly in the underexploited African environment. Already, South African mining companies are aggressively investigating new mineral deposits from Mali to Botswana and further development is expected over the next few years.

"Ten years ago, 80 per cent of our exploration was in South Africa and 20 per cent outside; today the situation is reversed." notes Mr Gary Maude, managing director of Gengold.

In the global context, too, new initiatives are under way. Anglo last year shifted most of its international assets to offshore associate Minorco as a prelude to further expansion, while Gencor has been negotiating to purchase Shell's international mineral arm, Billiton.

This is not to say that the South African mining industry will be neglected, and some new mines will continue to be developed, but big capital spending within the country is increasingly likely to shift away from mining projects towards beneficiation of minerals for export.

The three biggest capital projects presently in progress, the R5.8bn Alusaf aluminium refinery extension, the R3.5bn Columbus stainless steel expansion and the R1.4bn Namakwa Sands project, are all examples of such value-added mineral initiatives that should bear fruit in the future. In the meantime, however, the steam engine will keep puffing away.

The banks want a level playing field, writes **Tony Hawkins**

Five challenges ahead

Few industries are better placed to cope with the challenges of post-apartheid economics than the financial services sector.

"We are in the top 1 per cent in world banking in terms of systems, instruments and performance" says Mr Barry Swart, First National Bank's chief executive.

Services generally, and financial services in particular, form one sector where South Africa has an international competitive advantage, although this does not mean that it will escape the pressures of global competition, already manifested in the arrival of several international commercial and investment banks.

This is something of a sore point on two counts. The new arrivals, and the return of banks that divested in the 1980s, are unlikely to improve services and enhance competition in the bottom half of the market, where arguably the country is underbanked and where millions of consumers and thousands of small-scale enterprises offer new opportunities and challenges.

Instead, groups such as Citibank, Morgan Guaranty and Standard Chartered are setting up representative offices targeting high-profile businesses, focusing on trade finance, raising offshore loans and corporate finance services in the realm of cross-border mergers and alliances.

While accepting the inevitability of such new competition, South African banks want the government to insist on a level playing field, forcing the newcomers to put capital on the table and open up branches – "just as we had to do in the UK", says one banker.

No one expects the foreign banks to risk the enormous capital needed to open retail networks in South Africa. "There is no way," says one, "that Barclays or Standard Chartered will return to retail banking. The entry barriers are just too high and returns on assets of 1 per cent unattractive."

It's a similar story in the investment field, where South African brokers have set up joint ventures with international merchant banks. S G Warburg has taken a 50 per cent stake in the Ivor Jones Roy broking house in a deal which is bound to impact on the investment banking business and aspirations of South African banks.

Predictably, the foreigners are eyeing the high margin operations which, politicians and industrialists say, are not the top priorities.

The banks see themselves up against five main challenges:

● At the top of their list is the need to retain and strengthen their image as world-class players. This means adherence to Basle capital ratios; greater transparency, which ANC politicians are demanding; closer central bank supervision; and deregulation of the markets.

Capital requirements have been raised significantly to satisfy Basle standards – from next year, banks will have to meet the 8 per cent risk-based capital adequacy requirement. All the leading groups are already there.

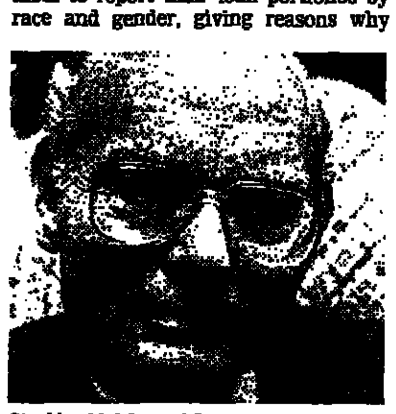
● The second is coping with the new international competition. Dr Conrad Strauss, chairman of Standard Bank Investment Corp (Stanbic), says South African banks must become larger, pointing out that, ranked by assets, 240 banks around the world are bigger than the largest South African bank.

On 1993 numbers, the top four banks accounted for nearly 80 per cent of total bank assets. Amalgamated Banks of South Africa (Absa) ranked first, with a 28 per cent market share, followed by followed by Standard Bank (20 per cent), First National (17.5 per cent) and Nedcor with 13.5 per cent.

● The third, and politically most pressing, is relevance – the need to ensure that the banks are meeting the demands of the new South Africa in terms of providing services for the small man and the small enterprise.

In a capital-scarce economy, it is not surprising that some politicians should see the banks as a source of low-cost funding for social projects, while simultaneously advocating directed credit to ensure that people and businesses without collateral can get access to bank loans.

ANC politicians are calling for "transparent" reporting by banks, requiring them to report their loan portfolios by race and gender, giving reasons why loan requests are rejected.



Stanbic chief Conrad Strauss says that South African banks must become larger

The banks have long been conscious of the opportunities available in the fast-growing mass consumer market. Automatic telling machines, smart cards and debit cards are being used to provide quick, efficient and low-cost services to the millions of users seeking basic banking services.

Standard Bank is opening a new division, E-Bank, which is a network of terminal-based branches catering for people wishing to deposit and withdraw cash.

More challenging is the need to fund home purchasing and black business. The Nedcor group, through its 1989 purchase of the Perm, bought a large black customer base. Its experience with black home-buyers, who have good repayment records, will stand it in good stead as the mass consumption market expands. It stands to benefit too from donor funds, such as the $15m package from USAID, to be channelled to low-income households. In 1991, it established NedEnterprise which makes loans of between R50,000 and R1m to small and medium-scale businesses. Some 55 per cent to 60 per cent of its lending is to black, asian and coloured-owned enterprise, with about 60 per cent going to franchise-holders.

NedEnterprise offers three types of loans – traditional overdrafts for working capital, instalment finance for asset purchasing and three- to five-year term loans.

Bad debt ratios are low, especially in the franchise business where they are below 5 per cent. It is not as high risk an operation as might be anticipated because two organisations, the Small Business Development Corporation and USAID provide guarantees for many loans, while franchising is a low-risk operation anyway.

● The fourth challenge is that of servicing corporate clients offshore. Stanbic earned 2.5 per cent of its R844m net income in Europe, while a further 4.8 per cent came from its acquisition of the former ANZ Grindlays African network.

First National Bank has opened operations in the UK and Hong Kong, while Nedcor has struck strategic alliances in Africa with leading European banks – BNP of France, Dresdner of Germany and Banque Bruxelles Lambert of Belgium. It recently opened an office in Beijing and reopened in New York.

Increasingly, the banks see southern Africa as the logical extension of their domestic market, with Stanbic, FNB and Nedcor all expanding their regional business in the past two years.

● High on the challenge list, too, is affirmative action. This is going to be a difficult, controversial area. Experience elsewhere in Africa highlights the dangers of falling standards of service and increasing losses through fraud.

The sheer sophistication and technological superiority of the South African banks means that they should manage to minimise this threat, but investment in training and an element of affirmative action in promotion policies will have to be a core part of future manpower strategies.

THE FINANCIAL RAND

Reserves fear delays abolition

If there is one thing that South African businessmen detest above all others, it is the financial rand (finrand) – the investment currency for foreigners. At last month's World Economic Forum summit in Cape Town, speaker after speaker reiterated the same demand to the country's financial authorities: the country's exchange controls and its confusing two-tier currency – widely seen as an impediment to foreign investment – must be scrapped as soon as possible.

Unfortunately, however, while everyone might agree that the cumbersome restrictions should be eradicated, there is no similar consensus on when such a move should be made – although there is continuing speculation in the market about a possible target date before the end of the year.

One jump that the government seems unwilling to make

Nonetheless, both Mr Derek Keys, finance minister, and Mr Chris Stals, Reserve Bank governor, are adamant that the financial rand is not going to disappear any time soon. "People need to stop speculating and talk about the issue constructively," stresses Mr Stals.

The main reason for the hesitation is the parlous state of the country's foreign reserves which have taken a real hammering over the past 18 months: 1993 saw record net capital outflow of R10.3bn and the first part of this year saw a similar haemorrhage, with a probable net loss of some R3.5bn. Although the outflow has since stabilised, there has still been little sign of capital inflows, and reserves currently amount to only just over a month of imports.

Also, decades of exchange controls have created intense pressure among local institutions and individuals to invest abroad. In the short term, the country would almost certainly face massive capital exports following any scrapping of the present system. Combined with the fact that a very large pool of speculative finrands, about R4.5bn is currently in the banking system waiting to be pulled out if the currencies merge, this is a cause for severe anxiety among Reserve Bank officials.

"We need to be aware of the possible consequences [of abolishing the finrand]," Mr Stals says, asserting that whatever the long-term rewards, in the short term massive capital outflows will almost certainly lead to a sharp depreciation in the currency and a very steep rise in interest rates. "The shock therapy would be a big shock," he asserts "I don't think South Africa is ready for such a major restructuring."

Given these problems, Mr Stals and Mr Keys emphasise that three primary conditions have to be met before the financial rand can be scrapped:

● First, South Africa has to build up reserves that amount to at least three months' cover, preferably more;

● Second, the discount between the commercial and financial rand, presently about 23 per cent, must narrow to 10 per cent or lower; and

● Third, the finrand pool presently in the banking system must be cut to about R1bn.

It seems that exchange liberalisation is more than a year away at least. And even when reform does take place, it is likely to be done in stages so as to try and limit any downside. But despite this, businessmen continue to argue loudly that the system's demise should come sooner rather than later on the grounds that the government will likely benefit from the element of surprise while being applauded for showing confidence in the strength of the economy.

"We took a hell of a political risk with the transition," observes a senior banker. "I think we should grit our teeth and take a similar leap of faith with the finrand."

So far, however, that is one jump that the government seems unwilling to make.

Mark Suzman

FINRAND HISTORY

South African exchange controls have been in place for decades, writes Mark Suzman.

The financial rand was first introduced after the Sharpeville riots of 1961 to staunch massive capital outflows.

Although it was briefly scrapped in 1983, renewed political unrest forced the finrand's reintroduction in 1985 following then President PW Botha's notorious Rubicon speech and the subsequent run on the currency.

Financial rands comprise a pool of rands that can only be used by foreign investors, and trade at a significant discount to the commercial rand, the currency used for all ordinary current account transactions.

Finrands are created when a non-resident sells an asset to a South African.

The payment is made in rand and deposited at a local bank. It can only be used again by another non-resident in exchange for foreign currency.

In addition to acting as a penalty against capital withdrawal, the finrand also serves as an investment incentive for new foreign investment because all yields are remitted in commercial rands, giving a greatly augmented return, thus helping maintain foreign reserves and prevent capital flight.

While it does limit the outflow of capital, however, the finrand also imposes serious costs on the economy. Most obviously, by creating severe distortions in the currency market, it encourages asset-stripping and "round-tripping" by companies to enjoy the benefits of the discount between the two currencies.

Because the finrand is relatively thinly traded, moreover, speculation in times of political uncertainty can lead to wild gyrations in its value.

And although the currency is designed to attract foreign investors, its volatility is a strong deterrent, as capital gains can be eaten away by currency losses.

Mark Suzman on the future of state-run enterprises

More commercial role

Fifty years ago, South Africa's most contentious political issue was the "poor white" problem – how to cope with hundreds of thousands of poverty-stricken, rural Afrikaners seeking work in the cities.

The answer came in the form of parastatals: big, state-run companies which provided huge numbers of new jobs and useful sources of patronage for the Afrikaner elite.

Now, with the country's attention focused on finding employment opportunities for the vast, unskilled black labour pool, attention has once again centered on these giant companies. But despite the pre-election aspirations of some of the more statist among African National Congress advisers, the economic climate is now vastly different from the early days of Afrikaner rule.

Iscor, the state iron and steel company, was privatised in 1989 and is now the most actively traded stock on the Johannesburg market. Similarly, Sasol, the giant oil-from-coal company, is also privately run and has begun to shift its focus to the manufacture of petrochemicals and other derivative products. Both are now among the country's leading exporters of semi-manufactured products.

Over the past few years, moreover, with an eye to possible further privatisations, the remaining state corporations have been shifted to a "commercial" basis, and are run as self-financing, independent public companies, with an appointed board of directors. In recognition of this shift, the new government has chosen to emphasise the strategic importance of existing state industries and their potential as bases of local technology and manufactured exports, rather than their possible role as job providers for the masses.

"The public enterprises have a special role to play in the process of rebuilding and revitalising the economy" observes Ms Stella Sigcau, minister of public enterprises.

Although some state-run companies, such as the Mossgas oil terminal off South Africa's southern coast, are struggling, others have dramatically improved productivity in the past few years.

Transnet, which runs the country's railways, airline, ports and harbours was for years best known as a home for unskilled, white workers who could be guaranteed lifetime employment on the railways. "I don't even want to talk about how bad our hiring ratio used to be," acknowledges Mr Anton Moolman, managing director, noting that the company is now committed to a comprehensive affirmative action programme.

However, while the demographics may have improved, overall employment in the company has been falling steadily as it has sought to improve productivity and cut costs. In 1993, more than 15,000 employees were redeployed and 27,000 took voluntary severance packages. "Our prices are now competitive globally," Mr Moolman says. "We stand to benefit greatly from the economic recovery."

Given the prominence of electrification goals in the government's reconstruction and development programme, Eskom, the giant electricity utility, has a particularly important role to play. Last year, the utility electrified 200,000 new homes. In 1994 it hopes to raise the total to 250,000, all financed internally.

Both of these companies, moreover, are now intent on expanding their operations abroad, especially in Africa. Transnet has already got operations under way in Libya and east Africa, while Eskom envisions the establishment of a vast regional electricity grid that can make use of the hydroelectric resources of the Congo and Zambezi basins.

Mr John Maree, Eskom's chairman, wants to use South Africa's low-cost electricity as a key incentive to increase foreign investment. "With the second-cheapest electricity in the world, we are able to create an Electricity Valley in South Africa – similar to California's Silicon Valley – that will attract high energy consumption industries to the region," he says.

Perhaps most striking of all has been the ANC-led government's new affection for the country's arms industry, now split into two companies, Denel, which does most of the manufacturing, and Armscor, which concentrates on procurement and maintenance. They have been applauded by the new administration as representing a "very important technological base without which numerous job opportunities would be lost."

Given this emphasis on commercial activity, moreover, the thorny question of privatisation has forced its way back onto the agenda. Although President Mandela recently deprecated the notion as just another means of maintaining white economic clout, the government seems to be leaving the door open for a change of heart. It has publicly declared that it will "look with interest" at ways in which privatisation might empower the black community, while Mr Jay Naidoo, minister without portfolio, has said that he is in favour of selling "unproductive assets" in state hands.

Whatever the future of that debate, however, it seems highly unlikely that the government will seek to decommercialise, let alone renationalise, the privatised companies. In the unexpectedly sober new South Africa, job creation and patronage in the parastatals will be taking second place to efficiency and sustainable growth.

Mark Suzman examines the black business community

Success stories needed

"Blacks will never make good entrepreneurs – they don't have the head for it," was the indiscreet comment made at a corporate lunch in Johannesburg recently. Surprisingly, however, the speaker was not a recalcitrant white executive disparaging the new order, but a youngish black executive.

The comment highlights the big problem facing the government and corporate sector in trying to nurture a credible black business community.

For years in South Africa, black business was something of an oxymoron: as blacks were not allowed to own property or conduct business in the cities, independent economic activity was limited to activities such as *shebeens* or *spaza stores* – the speakeasies and corner stores that litter the country's black townships.

At the same time, denied access to education, training or finance, few were given the wherewithal to try and compete in the rough and tumble world of business.

The result has been a lingering lack of faith about black capabilities in the business world – a problem that has been highlighted by the difficulty of trying to encourage blacks to buy shares in black-run companies. "There is still a basic lack of trust in black skills and that will only wear off in time," notes Mr Thami Mazwai, editor of Enterprise, a black business magazine.

Part of the problem is a continued lack of leading black success stories. Although most big companies have also appointed some black faces to their boards, few hold executive positions. And while the past year has seen a flurry of takeovers by black businessmen of leading companies – including two life assurers, a merchant bank, and The Sowetan, the country's biggest daily paper – the deals are largely engineered by white conglomerates, and the companies often retain white managers.

But however unsatisfactory such a situation might be, many regard it as the only viable route to economic power. "In the short and medium term, blacks will succeed in business only through linkages with whites," notes Dr Nthato Motlana, President Nelson Mandela's personal doctor and a key figure in many of the empowerment transactions. "Total control is unrealistic at this stage."

One move that might start to shift the balance of power, however, has been the announcement by Anglo American, the country's largest corporation, that it intends to split up subsidiary mining house Johannesburg Consolidated Investments into three parts and sell off two of them, one incorporating the group's gold mines and the other its leading industrial shareholdings, to blacks.

But despite the high expectations raised by the plan, Mr Julian Ogilvie Thompson, Anglo chairman, warns that its final execution could take years.

"We mustn't let media hype create a situation where we make a deal that is structurally and financially unsound," he notes, observing that the completion of the planned moves requires alterations to existing legislation on corporate restructuring and working out some highly complicated shareholder arrangements.

Given these problems, black business has begun to increasingly look to the new government for help in creating a suitable environment for business development. "We can use the same method as the Afrikaners, utilising the state to help nurture business," says Mr Archie Nkonyeni, president of the National African Chambers of Commerce, the country's largest black business federation.

Accepting the importance of black enterprise, government is likely to help steer state business to black companies where possible, or insist that white companies use black sub-contractors when filling tenders. Last year African National Congress pressure managed to get black businessmen a stake in the country's new cellular phone operators and companies such as Thebe Investments, a private company with close ANC links, are expected to benefit from deals with the new government.

Also high on the government agenda is the encouragement of black entrepreneurs and the growth of small and mid-sized black businesses that can build up black capital and create jobs. The state-run Small Business Development Corporation has shifted its focus to black applicants and the government is trying to put pressure on banks to help finance more black business schemes in other sectors.

Another promising route to empowerment is through franchising and joint ventures with foreign companies which can supply both skills and financing. International giants such as Coca-Cola and Pepsi have both recently decided to return to South Africa with the stated aim of helping black business.

But despite the flurry of initiatives, the sobering fact remains that blacks still control only a very small, if rapidly growing, proportion of South African business. In a community robbed of skills and capital by decades of apartheid, economic victory is likely to take more than a generation to achieve. And while a black elite is already reaping the benefits of change, the masses will have to wait a little longer.

The stock exchange is undergoing important changes, writes **Mark Suzman**

International investors stay wary

Few people were happier with the outcome of South Africa's elections than the country's stockbroking community. While market players may be used to life on a roller coaster, investing in South African financial markets in the run-up to April's poll at times seemed more akin to bungee jumping.

In rapid succession, the market rose, fell, and rose again, almost entirely focusing on political sentiment rather than economic fundamentals.

To make matters worse, the renewed volatility came after an excellent year for the Johannesburg Stock Exchange. In 1993, it seemed that little could go wrong for the market as the overall index increased 50.1 per cent and net foreign purchases reached R2.8bn in the year to February 1994 after years of disinvestment.

Highlighting the return to favour of the South African market in the international arena was the creation of several investment funds targeting South African equities, bringing hundreds of millions of dollars into the market.

But in March and April, responding to fears of civil war, foreigners beat a mass retreat, becoming net sellers once more. The result was soaring gilt yields, a sinking stock market and a plummeting currency. The combination, which shifted almost daily, was wearing. "It was like being in a ring with Mike Tyson every day," reminisces one not very nostalgic broker.

Following the successful and remarkably peaceful elections, however, local investors have returned to the market to pre-empt the expected flood of new international fund money. After South Africa was included in the International Finance Corporation's global index with a hefty 13 per cent weighting, local brokers are expecting some leading international investors to adjust their emerging market share-weighting accordingly, with the potential windfall for the Johannesburg exchange running into billions.

So far, however, despite the return of fund managers and investment analysts to Johannesburg's biggest hotels, little new money has been forthcoming. Part of the problem stems from a general disenchantment in emerging markets after several top players got burnt in countries such as Mexico, Poland and Turkey, but most of it depends on South Africa itself.

Despite a conservative budget and numerous statements by President Mandela and his economic team professing their adherence to free market discipline and macroeconomic stability, many investors seem to want to see how successfully the encouraging rhetoric is put into practice before taking the plunge. International investors also cite some continuing structural flaws with the market. Mr Frank Savage, chairman of Alliance Capital management, one of the big southern Africa fund managers, singles out the presence of big conglomerates without a proper anti-trust legislative framework and the low tradeability of shares, as among the most important problems. Although liquidity on the JSE improved to 7.14 per cent in 1993 from 4.76 per cent in 1992, it still remains far below other comparable markets.

Under pressure from foreigners and local banking groups who have long railed against the Johannesburg Stock Exchange's restrictive operations, the exchange has recently announced a plan for restructuring to improve both efficiency and accountability. In addition to proposals related to affirmative action and the encouragement of black share ownership, the report recommends the revision of existing capital requirements and suggests that non-residents be allowed to act as brokers and that local firms can sell up to 30 per cent of their equity to institutional investors.

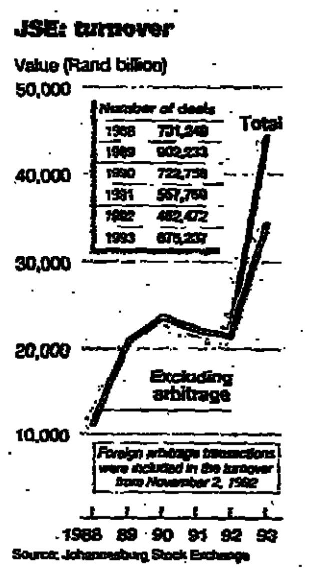
Foreign firms have been quick to respond, setting up partnerships with local brokers even before the recommendations have been endorsed and legislated. In the past year, Robert Fleming, Smith New Court and SG Warburg have all made domestic alliances in the South African market, and more are expected to follow.

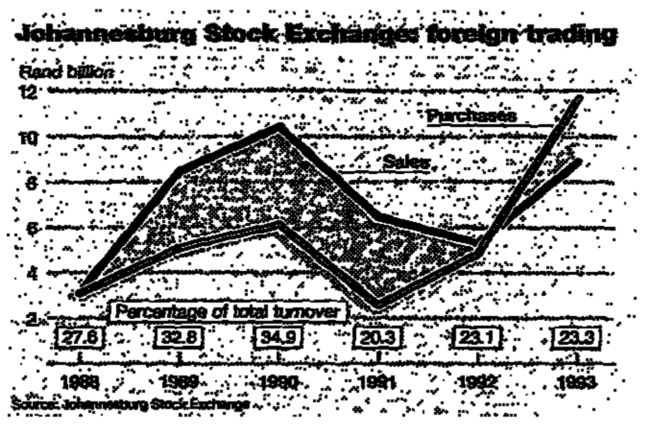
To many, however, the proposals do not go far enough and critics are pressing for an end to the maintenance of single capacity trading, urging full corporate membership, and pushing for a move to screen trading from the current system of open outcry. But despite threats from disgruntled bankers to open a rival exchange, the Johannesburg Stock Exchange seems unlikely to budge further at the moment.

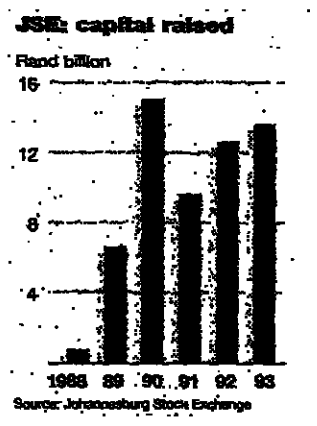
"If exchange control goes, then we would obviously have to reappraise the situation, but under current circumstances we feel that an evolutionary approach is best for the stock market," notes Mr Roy Andersen, stock exchange president.

Nonetheless, it is clear that the stock exchange, like other South African institutions, is undergoing important changes in the new environment and will continue to restructure further over the next few years. "One way or another I think we're going to have move to a fully deregulated market in the not-too-distant future," predicts one leading fund manager.

The Johannesburg Stock Exchange: following the elections, local investors have returned to the market







Tony Hawkins examines foreign investment

On the touch-line

More talk than action sums up South Africa's recent record of foreign investment. Most of the action has come in the past 18 months with a surge of portfolio investment and a large number of franchise and other non-equity deals.

A recent independent survey concludes: "Most companies are adopting a wait-and-see attitude", avoiding manufacturing and keeping their investments relatively small.

Many foreign companies have established a low-profile presence in the country in anticipation of an improved business climate from 1995 onwards.

The main action has been on the Johannesburg Stock Exchange. In the 15 months to March 1994, net inward investment on the JSE totalled R8.9bn, almost two-thirds in gilts and the balance in equities. This compares with substantial net foreign selling, especially of equities in the 1990-1992 period.

The same survey, which warns that it may not have tracked down all post-1990 foreign investment, lists 17 first-time new investors, including Vodafone of the UK and Alcatel of France in telecommunications, Daewoo of South Korea in household goods, Mr Tony O'Reilly's Independent Newspapers of Ireland in publishing and Digital Equipment of the US in computers.

Another seven are listed as returning companies - those that divested in the 1980s for political reasons. This list includes leading players such as IBM, Procter & Gamble and AB Electrolux of Sweden.

Another important participant who stayed behind, BMW, has brought in R100m in new capital to expand its Rosslyn vehicle-assembly plant.

There has been a good deal more activity in the field of indirect investment - distribution, franchise and licensing deals. This list is dominated by the returnees - Apple, Honeywell and Novell in computers; Volvo and Peugeot in cars, and Morgan Stanley, Citibank and Warburgs in banking. Significantly, the largest single category, of some 36 companies, is made up of those intending to invest or reinvest. Here, too, the list reads like a Who's Who of global business: Ford, Motorola, Heinz, Philip Morris, Wang, AT&T, Ericsson, NEC, Coca-Cola and Pepsi.

The conventional wisdom is that this cautious trend, with its emphasis on indirect investments with minimal equity involvement, such as franchising, will continue for another 18 months to two years. The broking community is bullish about portfolio investment prospects, especially once the financial rand is abolished. But direct investment is seen, in the words of Mr O'Reilly, chief executive of Heinz, as a "postponable event".

How postponable was outlined at last month's World Economic Forum meeting by Mr Frank Savage of Alliance Capital Management International. Mr Savage put up a 10-point wish list of conditions that foreign investors want to see in South Africa: financial rand abolition, the removal of exchange controls, removal of limitations on foreign ownership, no capital gains taxes, non-inflationary budgets, lower tariffs, reform of the Johannesburg Stock Exchange, anti-trust legislation, black economic empowerment and consolidation of the government of national unity.

Almost all of these are on the new government's agenda - the one exception being the probability of some form of capital transfer tax. But it will take years to translate an agenda into action.

While the foreigners sit on the touch-line, domestic investment has started to recover. In March, Nedbank's Economic Unit, relying on public announcements, estimated new and continuing capital projects worth almost R100bn ($27bn at present exchange rates), over the next six years. This estimate includes an adjustment of 10 per cent a year for inflation. Community and social projects (R35bn) make up the largest single chunk, followed by energy and water projects (R21bn) and manufacturing (R13 bn).

In the past, South Africa's investment record has fallen short on two counts. Even when it was investing more than comparable middle-income economies such as Brazil, Chile and Mexico - averaging 26 per cent of gross domestic product in the early 1970s - output and employment growth did not respond proportionately, because of growing capital intensity.

In the 1980s and 1990s, the problem was less the efficiency of investment than the steep decline in volume. By last year investment was down to 15.2 per cent of GDP, touching bottom in mid-year, since when there has been some recovery.

To grow at 5 per cent a year, the economy needs to invest more than 25 per cent annually - implying a shift of more than 7 per cent of GDP from consumption to savings. Part of this shift can be funded from offshore, with foreign capital, but achieving the domestic transfer of resources while simultaneously satisfying expectations will be a formidable task.

Mazda-Ford production line of the South African Motor Corporation

Exporters are finding new markets open for trade, writes **Mark Suzman**

Generous Gatt 'window'

South African exporters are a little overwhelmed by their new-found international respectability. After years of developing expertise in such arcane skills as transhipping and re-labelling to try and counteract sanctions imposed as a result of apartheid, companies find that many countries are now rolling out the red carpet, and new markets from Asia to eastern Europe to Latin America – long out of bounds – are now open for trade.

As part of this new order, the South African government is starting to formalise its trading relationships. At the top of the list comes readmission to the General Agreement on Tariffs and Trade. South Africa's formal submission to the Uruguay Round was accepted late last year and a fundamental restructuring of its tariff structure will shortly get under way to bring the country more in line with international norms.

The adjustments required by Gatt will involve pain for some highly protected industries but, by securing classification as an "economy in transition", South Africa has managed to get a generous eight-year window for leading employment-oriented industries, such as textiles and motor vehicles, to adjust to the new arrangement. The deal also allows some leeway in the reorganisation of South Africa's contentious, and widely abused, General Export Incentive Scheme.

Meanwhile, new trade agreements are giving further impetus to trade growth. President Clinton gave South Africa GSP status in May, allowing preferential access to the US market for a wide range of goods, and the European Union has announced its intention to do the same by the end of the year. A more formal, separate trade treaty with the European Union is under discussion, as is the possibility of some kind of associate member status with the Lomé aid group.

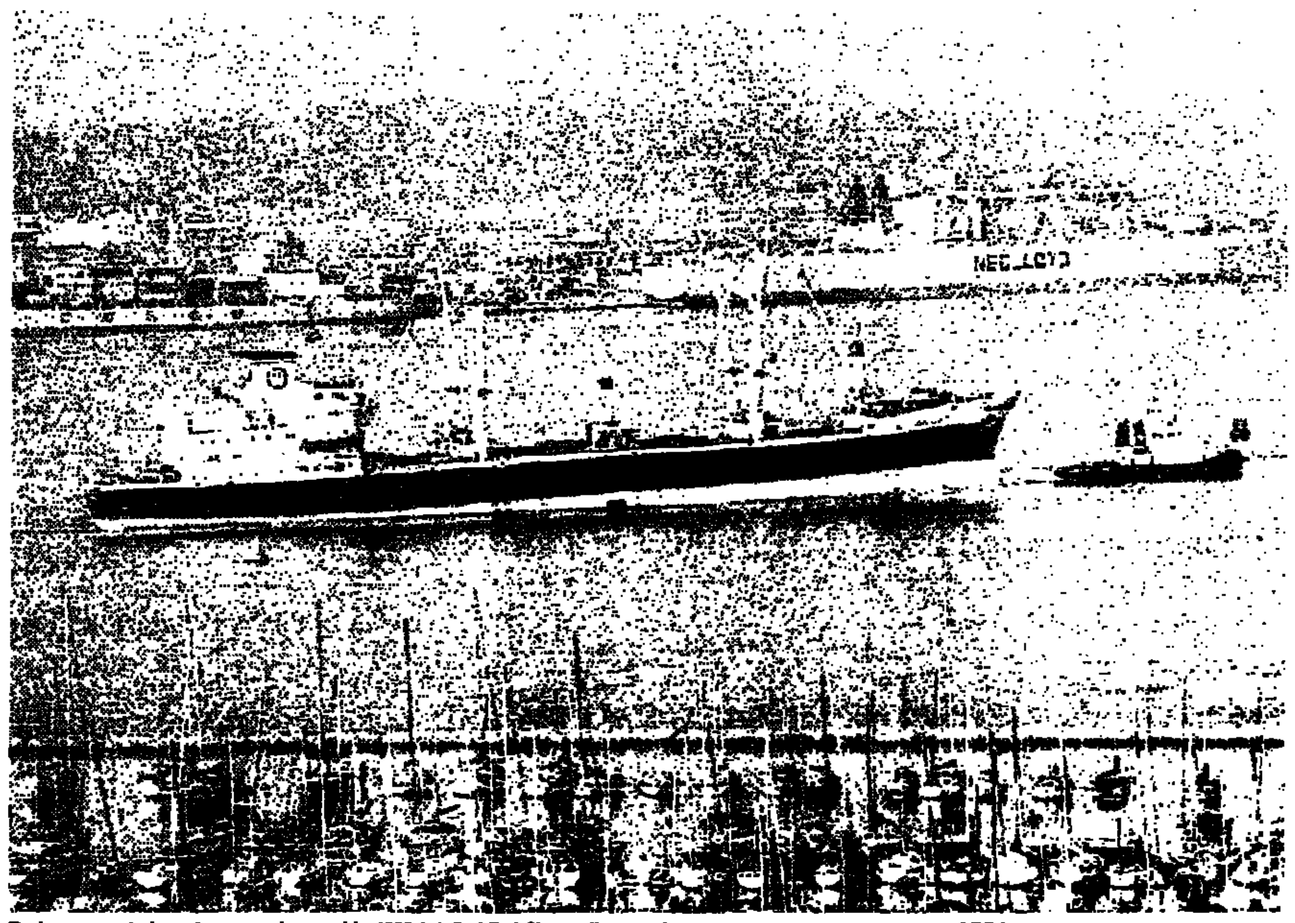
Also on the agenda are a set of new regional trade arrangements. At the World Economic Forum meeting last month, President Mandela and other southern African leaders signalled their intention to work towards a regional free trade agreement. As a first step towards this goal, in August South Africa will join the South African Development Community, a grouping of 10 southern African states originally formed to try and reduce dependence on South Africa.

In the shorter term, Mr Trevor Manuel, trade and industry minister, has already signalled his intention to restructure the South African Customs Union, which South Africa shares with Namibia, Botswana, Lesotho and Swaziland and in which it currently pays out some R5.6bn of a customs and excise revenue pool of R16.3bn to its partners. It is also seeking to renew a bilateral trading arrangement with Zimbabwe.

Reflecting all this activity, exports have been soaring, and in 1993 totalled R78.3bn as the country ran a current account surplus of R5.9bn – although this year's surplus is likely to be lower due to a higher import bill. But despite this success, the majority of exports are still primary products and while the proportion of manufactured goods has been increasing there is still a lot of room for improvement.

A survey of exporters by the South African Foreign Trade Organisation estimates that South Africa's manufacturing industry is at a 15 per cent cost disadvantage to Organisation for Economic Co-operation and Development countries, with its only comparative advantage in electricity. In addition, the report notes that after years of focus on the domestic market, local manufacturers have a "tendency to blame external factors" for failures, and many fail to take export promotion and planning seriously.

"South African manufacturers still lack an export culture," acknowledges one senior trade official. "Until that changes, growth will be disappointing."



Durban: exports have been soaring, and in 1993 totalled R78.3bn as the country ran a current account surplus of R5.9bn

FOREIGN POLICY

Missions abroad have doubled

If South African newspaper headlines are taken at face value, President Nelson Mandela is the diplomatic equivalent of Superman.

Barely a week has gone by since the new government took office without what is presented as yet another presidential foreign policy initiative, exciting unrealistic expectations.

Mr Mandela is, it seems, single-handedly reforming the Organisation of African Unity, in which newly-admitted South Africa is "destined to play a leading role in peacekeeping and conflict resolution", according to local reports. He is much in demand. Over the past few weeks Mr Mandela has been described as "brokering" peace efforts in Rwanda and Angola, and contemplating imposing democracy on troubled Lesotho.

Thanks to President François Mitterrand's invitation, he will attend the next gathering of Francophone states, while the French leader's championing of South Africa placed the country "firmly on the agenda" at last week's Group of Seven leading industrial nations' meeting in Naples.

Meanwhile South Africa has rejoined the Commonwealth and looks forward to playing an active role in the Non-Aligned Movement.

New ties have also been forged with Japan. Tokyo's aid package, said to be worth R4bn, will, says Mr Mandela, help to "kick-start" the country's reconstruction and development plan. But closer examination of the package suggests it may be worth less than the initial estimates suggest.

Foreign minister Alfred Nzo: years of loyal service to the ANC

If all this is not enough, President Mandela appeared on video at President Bill Clinton's White House conference on Africa last month to lend his weight to calls for a Marshall Plan for the continent, the name given to the US-led programme to rebuild Europe after the second world war. Included in Mr Mandela's speech was an appeal for radical measures to ease Africa's external debt burden.

While these initiatives – real, imagined or exaggerated – take place, one arm of foreign policy seems to be operating with its past efficiency: the state-owned arms manufacturer, Armscor.

With sanctions lifted, and its activities given the endorsement of Mr Joe Modise, defence minister, officials are now lifting at least a corner of the veil of secrecy. The defence industry provides 70,000 jobs and foreign exchange, say government officials, who add defensively: "If we didn't sell weapons, someone else would."

To be fair to Mr Mandela, he and his senior advisers have tried to play down expectations. On the one hand, Mr Mandela's integrity and moral authority makes him the acceptable voice of Africa on behalf of its many causes. At the same time, he makes clear that that he has no easy answers to offer.

Advisers also point out that an effective diplomatic role is not made easier by the fact that the Ministry of Foreign Affairs is in the throes of reorganisation.

South African missions abroad have doubled since the transition to respectability began, while new entrants to the diplomatic service have to be trained, and suitable ambassadors found to replace many of the pre-election incumbents.

Meanwhile the overstretched service is still getting to grips with issues in which it has had little or no experience. These range from getting to know the OAU to the implications of the General Agreement on Tariffs and Trade deal, or reconciling relations with countries with whom ties were initially forged by the African National Congress, or the former government.

Thus, the new South Africa has to weigh its relationship with Taiwan, one of its biggest trading partners, against recently-established official links with the People's Republic of China. The latter's trading potential is bigger, and its position as permanent member of the UN Security Council will have to be taken into account by Pretoria should South Africa have aspirations for a council seat as Africa's representative.

Nominally in charge of this demanding portfolio is Mr Alfred Nzo, the foreign minister. His surprising appointment is put down to years of loyal service to the ANC. It may also be explained by the fact that policy will be shaped by Mr Mandela himself, and his senior deputy president, Mr Thabo Mbeki.

As the initial euphoria and excitement dies down, South Africa's foreign policy is likely to become more cautious.

Mr Aziz Pahad, the deputy foreign minister, acknowledges the dangers of taking on too much. But expectations are nevertheless high. In an interview with the Financial Times he echoes the explanation he gave to the Johannesburg Sunday Times: "We have captured the moral high ground in non-racialism, democracy and conflict resolution to become the world leader in this area."

First of all, however, South Africa has to consolidate its success and build a stable, flourishing, democracy: "If we don't sink, they [Africa's donors and creditors] see the hope that the region won't sink, and if the region doesn't sink, they see some hope of a breakthrough in the development of other parts of Africa."

Mr Pahad hopes that foreign investors do not ignore South Africa's neighbours: "If you don't have mutually advantageous regional development, illegal immigrants will come to South Africa and, given that our borders are so big, we will not be able to prevent it."

Michael Holman

FOREIGN BORROWING

Credit rating sought

One of the more dramatic signals of the normalisation of South Africa's international economic relations has been the country's decision to seek an international credit rating.

After an intense competition among international merchant banks for the right to represent the country, the new government in May appointed Goldman Sachs as its agent to secure a grading from the leading agencies, who are expected to announce their assessment later this year.

Although South Africa has long borrowed money on European markets without a rating, it wants access to the American market, hence the the new move.

Following the successful agreement with international banks on a repayment schedule for outstanding debt that had been caught in the 1985 standstill, and given its new-found political stability, the country feels the time is ripe to make formal entry into global capital markets.

Depending on the success of the present initiative, a similar move into the Japanese market may follow early next year.

Although political and economic uncertainty has long forced South Africa to pay a fairly hefty premium on offshore borrowing, government authorities are confident of achieving an investment grade rating of at least BBB.

"I would actually prefer a lower rating that we can improve upon, rather than a higher one which might be downgraded," notes Mr Chris Stals, South African Reserve Bank governor.

Even with the rating, however, initial borrowing is likely to be limited.

The new budget makes allowance for about $500m, but Mr Derek Keys, finance minister, says that figure may well be increased, depending both on the final rating achieved and the comparative strength of international markets at the time of borrowing.

The outcome of the government's initiative will also have a bearing on South African companies seeking to raise money offshore.

Assurer Liberty Life recently announced plans for a $360m-$500m rights issue, and electricity utility Eskom and the Development Bank of South Africa are both likely to float issues some time later this year.

Mark Suzman

Michael Holman on foreign aid

Net benefit may prove marginal

Few international aid causes are more popular than South Africa's appeal for assistance in redressing the legacy of apartheid. Raising funds, however, may prove to be easier than putting them to efficient use, and if aid is seen as a substitute for investment the net benefit may prove marginal.

If pledges are taken at their face value, South Africa can expect up to R10bn over the next five years, from a variety of bilateral and multilateral donors.

Leading the field is Japan, which earlier this month unveiled what it called its largest aid package to a single country – $1.3bn over two years. Mr Katsumi Sezaki, Japan's ambassador to South Africa, said that almost all the aid was untied, bar a $100m export-import credit facility aimed at promoting trade between the two countries. But a further $400m worth of export-import bank loans were untied, he said.

Of the balance, $250m would be in the form of soft loans – seven years' grace and a 25-year repayment period at 3 per cent interest. A further $500m in the package represented the amount of private investment and commercial credits the Japanese government was prepared to guarantee.

Sam: aid alone cannot deliver the economic growth which is needed

Next on the list is the US which has offered R2bn over three years, while a host of other bilateral donors have chipped in including Australia (R700m over three years), the European Union is offering over R400m; the UK will provide R560m over three years.

Meanwhile the African Development Bank says it can release between R720m and R1,200m of project-linked finance over five years.

Past experience in Africa has shown that aid has mixed results and even allowing for South Africa's considerable pool of skills, handling resources on this scale will not be easy. The amount on offer, however, may not be as much as it seems. As is so often the case, assessing what may be termed the "real money" – that is assistance that is readily available and which can be rapidly disbursed – is not straightforward.

Although trade cover and investment guarantees can be put to good use, including them in the category of "aid" can give a misleading impression of what is available for conventional aid projects – health, housing, education, and so on.

Development packages almost invariably include aid tied to purchases from the donor country, which can prove expensive. A recent study by a British development charity calculated that the resulting lack of competition can add anything from 10 to 15 per cent to the price of the items ordered from the donor country.

Another way of boosting bilateral aid figures in press releases is to include the contributions made by western governments to multilateral lending institutions, United Nations agencies, or money that would be channeled through European Union aid schemes.

A further device used by some donors is to include estimates of the benefits for South African exporters from introducing favourable tariff changes made in the wake of President Mandela's inauguration.

Given the competition between donors as to who will appear the most generous – which in turn may influence the South African government when it comes to allocating contracts for state-backed or funded projects – the donors themselves are often reluctant to make clear the precise benefits and terms of their offers.

In short, the arithmetic of aid is complex and South Africa, unused to being a recipient, may sometimes be too inclined to take promises at face value. Significantly, the World Bank, potentially South Africa's largest multilateral donor, is reluctant to put a figure to planned lending, although some officials have suggested a figure of about $1bn a year in the initial phase.

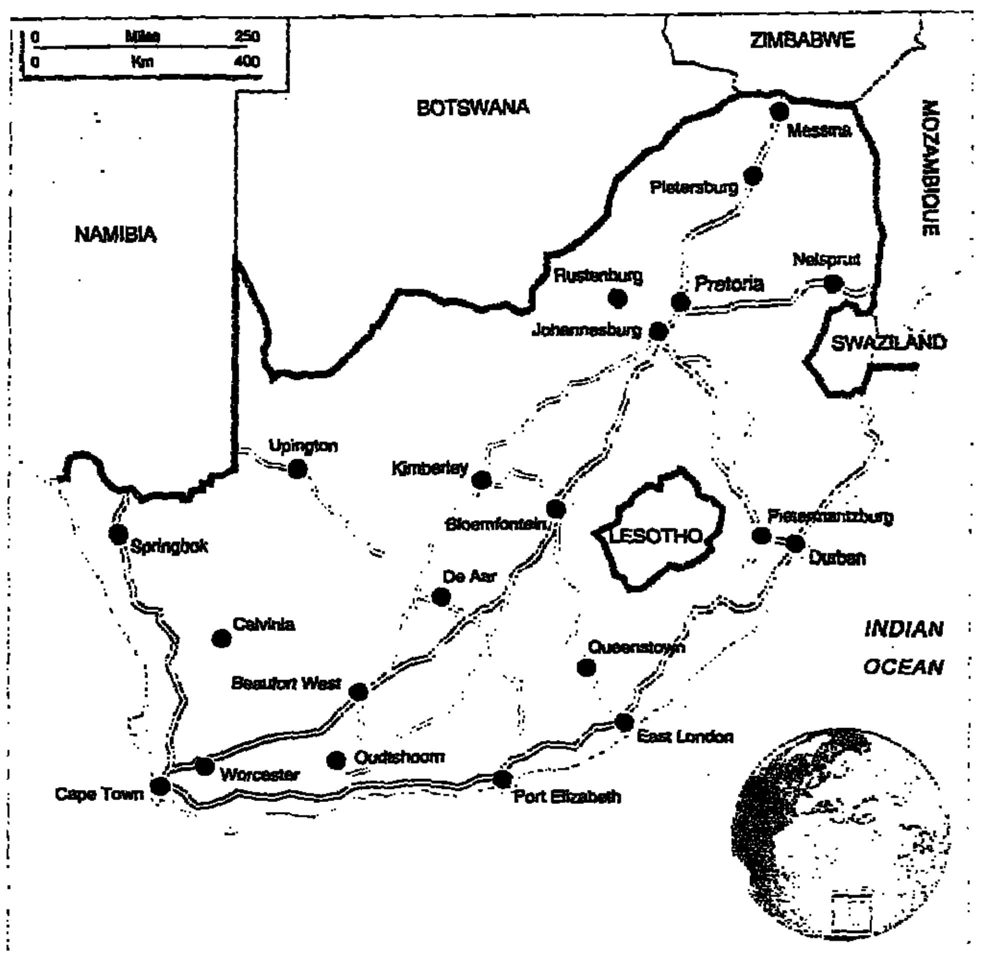
Mr Isaac Sam, the Bank's resident representative in South Africa, says that foreign aid is "rather crucial" in South Africa's development. What is more, fund raising "has to be done fairly rapidly" in order to take advantage of the goodwill South Africa presently enjoys.

But Mr Sam cautions that aid alone cannot deliver the economic growth that the country needs. While the Bank plans to provide substantial aid, foreign and domestic investment are the keys to post-apartheid growth: "The real resources for South Africa are in the international capital market, not donors", says Mr Sam.

Souvenirs for sale on the beach front at Durban

THE TOURIST INDUSTRY

Fresh markets opening



The Umngazi River Bungalow Hotel nestles sleepily in its Indian Ocean cove, where rollers break on the crescent-shaped white beach, deserted but for a lone fisherman and two dogs, gambolling in the adjoining lagoon.

Anywhere else in the world it would be the retreat of the rich, a private playground in an unspoilt environment. It's within easy reach from Johannesburg – a 60-minute flight east to Umtata, and then an hour's drive through the green hills of what used to be the Transkei homeland.

On the cove's grassy slopes are scattered 42 bungalows. A tennis court and swimming pool are in easy reach, while alongside the jetty on the river which feeds the lagoon, a motorboat stands ready for fishing or bird-spotting expeditions.

The hotel is not a retreat for the well-off. Dinner, bed and breakfast costs R125 a night – just over £20 – but the resort has only a handful of guests.* It is as if Umngazi is still cocooned and isolated from the outside world by the country's apartheid past.

In the grim period after the mid-1980s, when Mr P.W. Botha, prime minister, defied the world and angry black teenagers took to the streets, Umngazi and hundreds of other resorts suffered the consequences. South Africa seemed to have put up the shutters against political reform, and the outside world shunned it: barely 250,000 tourists came to the country in 1988. But with the political transition and the inauguration of a stable government of national unity, Umngazi awaits discovery by visitors to the new South Africa.

Many of those travellers who already knew what this spectacular country has to offer are looking back with something akin to guilty nostalgia to a time when a berth in the luxurious Blue Train could be obtained at short notice, or a room at the Mount Nelson hotel in Cape Town with a view of Table Mountain – provided it wasn't the school holidays.

Those days are well passed, for a vigorous promotion campaign is getting under way.

"Explore South Africa 95 Year" will be its theme, exploiting events such as the World Rugby Cup, the Comrades Marathon in Natal, the Million Dollar Golf Classic at Sun City and the Grahamstown festival

"The aim is to to achieve R9.5bn in foreign exchange earnings by 1996, based on 1m overseas visitor arrivals and 3.7m arrivals from Africa", says the South African Tourism Board's marketing plan.

It may seem an ambitious target, but when the world discovers what South Africa has to offer it will beat a path to beaches, game parks, mountains and lakes served by an excellent transport and communications infrastructure, and offering lodges and hotels that range from budget class to the luxurious.

Since the lifting of sanctions, direct air links with Australia and the US have been re-established, existing airlines have increased their services, and more than 20 new airlines are serving South Africa.

Tourist sector officials acknowledge that coping with a million holidaymakers a year will strain the country's existing hotel capacity. But the sector is already preparing for a boom that will encourage hotels to upgrade their facilities and, above all, create jobs.

And while the 1m target is four times the annual number of holidaymakers who came during the political traumas of the mid-1980s, Satour points to last years' figures as evidence that it is within reach.

In 1993, the country earned about R6bn from 618,000 overseas tourists – 10.5 per cent up on 1992 – making the sector the fourth-largest foreign exchange earner after manufactured goods, gold and mining, and employing approximately 430,000 workers.

Notwithstanding this increase, the potential has barely been tapped, say Satour officials. South Africa has less than a 1 per cent share of the international market and tourism accounts for only 2 per cent of South Africa's gross national product, compared to the world average of 6.1 per cent.

There is scope for growth even in traditional strongholds. The UK is by far South Africa's largest overseas market, accounting for about 23 per cent of visitors – excluding those from Africa – and Germany is the second-largest source.

But thanks to the new political environment and the number of new airlines serving Johannesburg, Satour can now exploit lucrative markets hitherto out of reach, such as India and Japan, and Scandinavia.

But it is Africa itself that is expected to provide the most dramatic results, from a mere 200,000 arrivals in 1991 to a targeted 3.7m in 1996.

Good news for the South African economy, but not happy reading for those who now have to share the country's scenic beauty with millions of newcomers.

So don't delay: visit South Africa while the hotels are relatively cheap and underbooked, the beaches are not crowded, tourists are not fleeced, and Umngazi River Bungalows are not taken over by the package tour business.

*Umngazi *River Bungalows, near Port St Johns (0471) 22370*

Michael Holman

The new flag is here to stay, writes Mark Suzman

Symbol of liberation

It is difficult to find anyone with an unkind word to say about the flag

The shock and disapproval when South Africa's new flag was first displayed was palpable and widespread.

"An exotic tea towel" and "Dayglo Y-fronts" were two of the more charitable comments about the patterned, six-colour emblem that was unveiled at the end of last year.

Such was the attachment of whites to their old "oranje blanje blou", and most blacks to the African National Congress's black, green and gold colours, that the new banner seemed to be representative of continued tension in a still divided society rather than any common ground.

By the time the poll was over, however, the flag had been taken up by black and white alike as the symbol of liberation, a tangible demonstration of commitment to the new South Africa. After an emotional flag-raising ceremony on the first night of the elections, the country awoke to find the multi-hued banner flying proudly over city halls, police stations and government buildings throughout the land.

And when, at President Mandela's inauguration, flag-patterned T-shirts and banners littered the lawns of the union buildings and the air force thundered overhead trailing its colours, the apotheosis was complete. The new flag, originally regarded as a temporary compromise until a final one could be agreed upon, is undoubtedly here to stay.

It has been a curious phenomenon, both for the speed with which it happened and the genuine feelings which it appears to evoke.

A private agency produced the design and *immediately came under* fire

While the debate over the national anthem was solved by allowing both the stirring Afrikaans "Die Stem" and the hauntingly beautiful liberation anthem "Nkosi Sikel' Afrika," no similar deal was possible over the flag issue. Following the failure of a nationwide competition to come up with an acceptable alternative, the matter was handed over to a private agency which produced the current design and immediately came under fire for its ridiculous result.

Now, however, it is difficult to find anyone with an unkind word to say about the emblem, and most people are rushing to buy their own. Flagpoles are sprouting in both white suburbia and black townships, flag bumper stickers are becoming ubiquitous, the emblem features on new airmail stamps and the Springbok rugby team has had it embroidered on their shorts.

Even the corporate sector, not in the past known for its displays of enthusiastic patriotism, have been striving to outdo each other in the size and number of flags at their disposal. One big company outside Johannesburg can be seen flying no fewer than 10 of the new banners above its office buildings and executives have been known to fight over little designer flag pins for their jacket lapels.

In short, the flag has become the symbol of the euphoria that has gripped the country for the past two months following the remarkably successful transition to democracy, and it seems destined to remain the touchstone of a new-found patriotism. As a result, in addition to the traditional goods and trinkets hawked on South Africa's streets, any shopper is now just as likely to be offered a selection of flag key-rings, coffee cups, table-cloths and, yes, even tea-towels. But they're tea-towels that can be used with pride.